Independent Fiscal Institution

FFR

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HIGHLIGHTS

- Compared to May, the main revisions to macroeconomic projections occurred in the short term.
- GDP growth is expected to slow from 3.0% in 2023 to 1.2% in 2024.
- In the baseline scenario, the forecast for real GDP growth in the medium term remained at 2.0%.
- The impact of the tax reform on potential GDP was considered in the optimistic scenario.
- The central government's net primary revenue should remain at 17.5% of GDP over the next few years.
- Approval of the measures contained in the PLOA 2024 could add 0.7 p.p. of GDP to revenue collected by the Federal Revenue Office.
- The projected reduction in revenue levels partly reflects the reduction in commodity prices.
- Limit on spending on court-ordered payments of government debt eases budget execution in the short term but puts pressure on the medium term.
- If the Federal Supreme Court accepts the request made by the AGU, spending on court-ordered debts will put pressure on the short term, but will resolve the issue in the medium term.
- The risk of non-compliance with the new primary expenditure limit is still low.
- The risk of not meeting primary balance targets is high and looks challenging in the short term.
- Gross debt should rise to 75.2% of GDP in 2023 and reach 78.2% of GDP in 2024.
- The primary balance needed to stabilize the debt is 1.4% of GDP in the baseline scenario.

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Decisive moment for fiscal policy

Fulfilling its institutional mission, in accordance with the provisions of Senate Resolution 42 of 2016, the Independent Fiscal Institution (IFI) delivers its 82nd Fiscal Follow-up Report (RAF, kept here in the original acronym, as are all acronyms for Brazilian agencies, taxes, institutions, and programs throughout the report), for November 2023.

This is a decisive moment for Brazilian fiscal policy, especially because of three parallel events with profound impacts on public finances.

Firstly, the implementation of the new fiscal regime provided for in the recently approved Complementary Law No. 200 of 2023 and the targets set out in the 2024 Budget Guidelines Bill (PLDO), establishing a zero primary deficit next year. The effort to meet the proposed target is central to the credibility of fiscal policy.

Secondly, the tax reform which, despite not being focused on fiscal adjustment, but rather on simplifying the system and increasing the efficiency and productivity of the economy, could generate an increase in public revenues, as well as pressure for new primary spending through the funds created and authorized. At the moment, it is difficult to measure these impacts because the constitutional text can still be amended by the Chamber of Deputies, and there is also a long way to go in voting on the complementary and ordinary laws that will detail the reform.

Lastly, Congress is working on a set of legal initiatives by the federal government aimed at increasing the revenue needed to meet the target of a zero primary balance in 2024. It is still difficult to predict which measures will receive parliamentary approval. And later, which ones will give rise to legal disputes. This list of proposals includes federal taxation on economic subsidies offered by states, fixed-odds electronic betting, closed-end funds, and offshore activities; the end of deductibility of interest on equity; the New Simplified Taxation Regime on imports (RTS), as well as the recovery of credits within the scope of the Administrative Council for Tax Appeals (CARF).

Faced with this uncertain situation, the IFI publishes in this RAF No. 82 the biannual review of scenarios, updating short- and medium-term projections in three reference scenarios. In the baseline scenario, the IFI projects real growth of 3.0% this year, declining to 1.2% in 2024 and converging at 2.0% in subsequent years. For inflation, the IFI projects a rise of 4.6% in 2023, 4.0% in 2024 and convergence towards the center of the target in the following years. The scenarios outlined are influenced by uncertainties on the domestic front and adverse elements in the external scenario.

The revised macroeconomic scenario will affect the Federal Government's primary revenues. The projections take into account the loss of momentum in revenues due to the cooling in commodity prices, as well as the impossibility of assessing, at the moment, the possible positive effects of the tax reform. They also consider the impacts of the renewal of the exemption from the social security contribution for 17 sectors of the economy, plus the reduction in the rate for smaller municipalities, introduced by the National Congress.

The IFI projects a conservative result for revenues from the measures contained in the 2024 Annual Budget Bill (PLOA), some of which are currently being considered by Congress. The collection will also be affected by lower volumes of revenue from the exploitation of natural resources, dividends and shares, as well as an increase in transfers to states and municipalities. In the medium term, the scenarios consider revenue trends in line with nominal Gross Domestic Product (GDP).

Regarding the performance of the Federal Government's primary expenses and their repercussions on the fiscal balance, the IFI considers the risk of non-compliance with the limits set for 2023 to be low, thanks to the flexibilities introduced by Constitutional Amendment No. 126 (CA of Transition). The IFI's projection indicates a primary deficit of 1% of GDP in 2023, equivalent to BRL 107.9 billion, above the target of BRL 65.9 billion. The new projection for primary spending is slightly better than the one presented in May.

An important point is that limiting spending on court-ordered payments of debt represents a relief in the short term and a burden in the medium term. The situation could change if the Office of the General Counsel for the Federal Government (AGU) is successful in its appeal to the Federal Supreme Court (STF), which would allow the flow of court-order debt payments to be regularized with the possibility of paying the liabilities through extraordinary credits.

The IFI identifies a high risk of non-compliance with the primary balance targets from 2024 onwards. The adjustment is challenging and is mainly centered on the performance of primary revenues. For 2024, the IFI projects primary deficits of 0.9% of GDP in the optimistic scenario, 1.1% of GDP in the baseline scenario and 1.5% in the pessimistic scenario.

In the medium term, the Tax Reform will generate additional impacts on primary spending due to the creation of the Regional Development Fund and the Tax Benefits Compensation Fund, as well as the authorization to create two other funds aimed at developing the Amazon.

Finally, RAF No. 82 discusses the dynamics of public debt. Debt is expected to rise to 75.1% of GDP in 2023 and 78.1% in 2024, remaining on an upward trajectory in subsequent years. In the revised baseline scenario, the IFI notes that the primary balance needed to stabilize the debt at the 2023 level is 1.4% of GDP. In the update of the stochastic scenarios for the debt, based on 1,500 scenarios, the IFI estimated a probability of 38.7% that the Gross General Government Debt (GBGD) would cross the 90% of GDP threshold between 2024 and 2028.

With the update of the medium-term scenarios, the IFI reaffirms its perception that the fiscal framework of the public sector is challenging and that much remains to be done to achieve control of public accounts, an essential condition for macroeconomic balance and the maintenance of a sustained development process.

Marcus Pestana
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Summary

- The November RAF presents updated short- and medium-term projections for macro-fiscal variables. Compared to the previous scenario outlined in May 2023, the main revisions were concentrated in the short term, highlighting the resilience of economic activity and improvements in inflation indices. The outbreak of the conflict in the Middle East in October and the rise in long-term interest rates in the United States introduce new challenges to the international scene. The expected enactment of the tax reform represents a new positive element for the economic scenario. Possible gains in potential GDP were considered in the optimistic scenario. In the medium term, it is assumed that real GDP growth will converge to the potential rate, estimated at 2.0% in the baseline scenario. (**Page 6**)
- The update of the central government's primary revenue projections for the short and medium term maintained the IFI's conservative view of the effects of the tax reform currently being examined in Congress. The proposal has the potential to increase primary revenues in the coming years due to the increase in potential GDP and the simplification of processes and reduction in tax litigation. At the moment, the effects on potential GDP have only been incorporated into the optimistic scenario, given the uncertainties surrounding the implementation and regulation of the reform, which will be done by complementary legislation in the coming months. (**Page 12**)
- The IFI's new projection for the central government's primary deficit in 2023 is BRL 107.9 billion, equivalent to 1.0% of GDP, slightly higher than the BRL 104.7 billion estimated in May. The main reason for this increase is the expectation of lower-than-expected revenue. Expenses, on the other hand, fell by BRL 10.2 billion compared to the May estimate. Despite this scenario, the primary deficit target of BRL 65.9 billion can be achieved, mainly due to the flexibilities of Constitutional Amendment No. 126. However, there is a high risk of not meeting the targets in the medium term due to the need to increase primary revenues. (**Page 24**)
- Based on the updated macroeconomic and fiscal projections for the medium term, the debt projections indicate an increase in debt as a proportion of GDP over the next few years, although at a lower level than projected in May. This is basically due to nominal GDP growth being higher than initially forecast in 2023, which lowers the current year's debt level. Despite the lower starting point, projections indicate an increase in public sector indebtedness in the coming years in the absence of revenues that will allow the central government to meet the primary balance targets stipulated in the PLDO 2024 for the period from 2024 to 2026. (**Page 32**)

1. MACROECONOMIC CONTEXT

1.1 Introduction

The November Fiscal Follow-up Report (RAF) updates the short- and medium-term projections for macro-fiscal variables. This process incorporates new data and reassesses the assumptions underlying the baseline, optimistic and pessimistic scenarios, in order to ensure that the forecasts are consistent with the current state of the economy. The purpose of updating the three scenarios is to highlight the degree of uncertainty in the projections, as well as their dependence on different configurations of the economic situation. The methodology for projecting the macroeconomic variables that underpin the fiscal scenarios was described previously in Special Study No. 13[1].

Compared to the previous scenario outlined in May 2023[2] the main revisions were concentrated in the short term, highlighting the resilience of economic activity and improvements in inflation indices. Our projections indicate Gross Domestic Product (GDP) growth of 3.0% in 2023 and 1.2% in 2024, with the prospect of convergence to an average rate of 2.0% in the medium term. As for the Extended National Consumer Price Index (IPCA in the original acronym), we expect variations of 4.6% and 4.0% this year and next, following a gradual path towards the inflation target.

The outbreak of the conflict in the Middle East in October introduced new challenges to the international context, although it has not yet had a significant impact on commodity prices and the exchange rate. The increase in interest rates in the United States, especially long-term rates, driven in part by the rise in the fiscal premium due to persistent nominal deficits, in turn, raises uncertainties about the extent of the interest rate reduction cycle implemented by the Monetary Policy Committee (Copom) of the Central Bank.

Domestically, the decision by the National Monetary Council (CMN) to maintain the inflation targets for 2024 and 2025 at 3.0%, the same level set for 2026, and the approval of the new fiscal framework, outlining a path for the primary balance, helped to reduce the risk premium and inflation expectations among economic agents. However, the Focus Bulletin's inflation projections for the relevant monetary policy horizon are still above the center of the target. Concerns about the sustainability of the public debt persist, especially due to the dependence on revenue for the adjustment.

The prospect of the tax reform being enacted by the end of the year, replacing five state, municipal and federal taxes with a dual Value Added Tax (VAT), **represents a new positive element for the economic scenario**. Possible gains for potential GDP were considered in this edition only in the optimistic scenario, considering that, after enactment, there is still the challenge of approving complementary laws that detail the general rules established in the corresponding constitutional amendment. In addition, there is the challenge of developing the government's management and technological structure to lead the transition from 2026 to 2032, the period in which the two systems will be operating simultaneously.

The following sections present the short- and medium-term projections of the baseline scenario, as well as describe the projections of the alternative scenarios.

1.2 Short-term projections

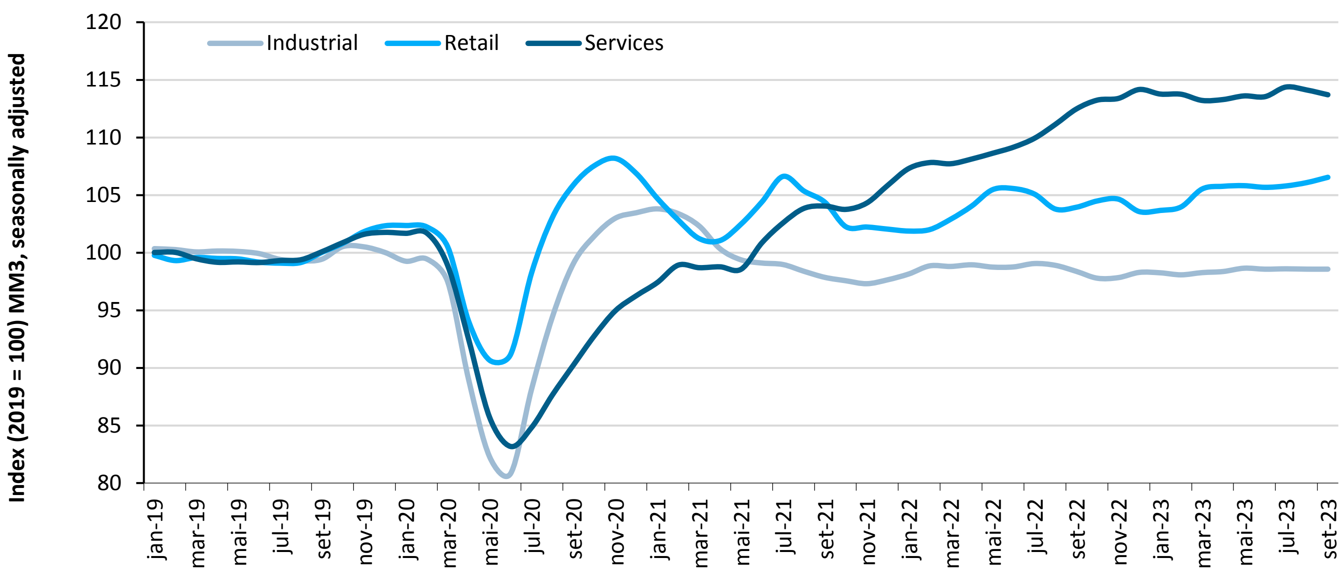
The vigorous expansion of economic activity in the first half of the year exceeded initial estimates, driven by positive performance in the agricultural and services sectors on the supply side, as well as household consumption and net exports on the demand side. However, more recent data points to a loss of momentum in economic activity over the second half of the year (Graph 1).

[1] Available at: https://bit.ly/3MNkj1M.

[2] The IFI carries out more frequent analyses of the short-term scenario, covering a period of 2 years. However, the medium-term projections (10 years) are formulated in May and November. Therefore, the comparison in this report will be made in relation to the latest medium-term scenario, drawn up in May this year. For more information, see: https://bit.ly/3uiHjzp.

In the third quarter, according to IBGE data, industrial production (PIM), expanded retail sales (PMC) and the volume of services (PMS) recorded variations of 0.0%, 0.0% and 0.1%, respectively, compared to the three months immediately before, considering the seasonally adjusted series. If they remain stable over the next three months, the result for the fourth quarter would be 0.1%, 0.3% and -0.6%, in that order, due to statistical carryover.

GRAPH 1. ECONOMIC ACTIVITY INDICATORS



Source: IBGE. Prepared by: IFI.

We project stability for GDP in the third quarter compared to the previous quarter and a slight decline of 0.2% in the fourth quarter, in the seasonally adjusted series. Based on this quarterly dynamic, we estimate that the change in GDP in volume will be 3.0% in 2023.

For 2024, GDP growth is projected at 1.2%. Economic activity is expected to advance this year due to less restrictive financial conditions. However, this expansion will be limited by the low statistical carryover, estimated at 0.2 percent, and a smaller contribution from net exports. The forecast for real GDP growth in the short term is obtained by analyzing the components from an expenditure perspective, as detailed in Table 1.

TABLE 1. SHORT-TERM FORECASTS FOR GDP GROWTH IN VOLUME

	2022	2023	2024
GDP and demand-side components (% real growth)	**2.9**	**3.0**	**1.2**
Household consumption	4.3	2.5	1.5
Government consumption	1.5	1.5	1.1
Gross fixed capital formation	0.9	-0.5	1.5
Exports	5.5	6.5	2.8
Imports	0.8	0.5	3.5
Contributions to the GDP real growth (p.p.)			
Domestic demand	2.0	1.8	1.3
Household consumption	2.6	1.6	1.0
Government consumption	0.3	-0.1	0.2
Investment (GFCF and changes in inventories)	-0.9	0.1	0.2
Net exports	0.9	1.1	-0.1

Source: IBGE. Source: IFI.

Domestic demand's contribution to GDP growth is expected to fall from 2.0 percentage points (p.p.) in 2022 to 1.8 p.p. in 2023 and 1.3 p.p. in 2024, mainly due to the slowdown in the household consumption expenditure component, which is expected to fall from 4.3% in 2022 to 2.5% and 1.5% in 2023 and 2024. The reduction in the unemployment rate and the expansion of the payroll have helped to mitigate the slowdown in consumption resulting from the high level of the real interest rate.

In the May revision, the average unemployment rate for 2023 was expected to reach 9.6% of the workforce. However, the most recent projection indicates 8.2%. This adjustment is mainly attributable to the lower-than-expected participation rate. In 2023 and 2024, it is expected that the extended payroll, which includes the sum of labor income and social security and social protection benefits transferred by the government to families, will grow by 5.7% and 2.0%, respectively. In the same comparison, the unemployment rate is expected to rise from 8.2% to 8.5%.

Net exports (external demand) are expected to contribute 1.1 percentage points and -0.1 percentage points to the GDP evolution this year and the next, respectively, compared to 0.9 percentage points in 2022. Exports are projected to rise by 6.5% and 2.5% in 2023 and 2024, while imports are expected to vary by 0.5% and 3.5%, reflecting the lower demand for imports from trading partners and a more favorable outlook for investments.

According to the October edition of the *World Economic Outlook* (WEO)[3], the International Monetary Fund (IMF) expects a mild deceleration of global GDP, decreasing from 3.5% in 2022 to 3.0% in 2023 and 2.9% in 2024, 0.1 percentage point below the June projections. This decline partly reflects the impact of higher interest rates implemented by central banks to curb rising inflation.

For the advanced economies, GDP is expected to slow down from 2.6% in 2022 to 1.5% in 2023 and 1.4% in 2024 (Table 2). In the United States, GDP growth is expected to slow from 2.1% this year to 1.5% in 2024, due to tighter financial conditions. In the Euro Area, where demand is weaker, GDP growth is projected to fall to 0.7% in 2023 and rise to 1.2% in 2024, as the adverse effects of high inflation on real incomes dissipate. For emerging market and developing economies, the projection is for a modest decline, from 4.1% in 2022 to 4.0% in both 2023 and 2024. For China, growth is expected to be held back by the real estate crisis, with a projection of 5.0% in 2023 and 4.2% in 2024.

TABLE 2. REAL GROWTH PROJECTIONS IN THE IMF WORLD ECONOMIC OUTLOOK

	2022	2023	2024
World	3.5	3.0	2.9
Advanced economies	2.6	1.5	1.4
Emerging Markets	4.1	4.0	4.0
China	3.0	5.0	4.2
United States	2.1	2.1	1.5
Euro Area	3.3	0.7	1.2
Brazil	2.9	3.1	1.5

Source: IMF. Prepared by: IFI.

Looking at domestic price indicators, there was a slowdown in the consumer inflation rate, as measured by the IPCA, from 0.26% in September to 0.24% in October. Over the past 12 months, this rate has also decelerated, decreasing from 5.2% to 4.8%. The variation in administered prices, which include items such as fuel and electricity, remained at around 10%. On the other hand, the variation in free prices was close to 3.0%, reflecting the fall in food prices, the slowdown in industrial goods and stability in services, at around 5.5% (Table 3). The average of the cores, which exclude more volatile items to capture the trend in consumer inflation, reached 4.7% in October, within the tolerance range set for the target.

[3] Available at:https://bit.ly/47fo48E.

TABLE 3. COMPOSITION OF THE IPCA

	In the month			Over 12 months		
	Aug/23	Sep/23	Oct/23	Aug/23	Sep/23	Oct/23
IPCA	**0.23%**	**0.26%**	**0.24%**	**4.6%**	**5.2%**	**4.8%**
Administered prices	1.26%	1.11%	-0.03%	7.7%	10.2%	10.0%
Gasoline	1.24%	2.80%	-1.53%	3.9%	16.6%	16.6%
Electricity	4.59%	0.99%	-0.58%	9.3%	9.6%	8.6%
Health insurance	0.78%	0.71%	0.76%	13.7%	13.2%	12.5%
Pharmaceuticals	0.14%	0.03%	0.06%	5.9%	5.6%	5.7%
Free prices	-0.12%	-0.04%	0.34%	3.6%	3.5%	3.1%
Food	-1.26%	-1.02%	0.27%	-0.6%	-0.8%	-1.3%
Services	0.08%	0.50%	0.59%	5.4%	5.5%	5.5%
Industrialized	0.31%	-0.19%	0.00%	3.7%	3.4%	2.7%
Core	**0.28%**	**0.22%**	**0.26%**	**5.2%**	**5.0%**	**4.7%**

Source: Central Bank and IBGE. Prepared by: IFI.

The IFI forecasts that the IPCA will end the year at 4.6%, with a subsequent slowdown to 4.0% in 2024. The projections for administered prices, which account for 25% of the IPCA, are taken from the Focus Bulletin, with estimates of 9.7% in 2023 and 4.5% in 2024. Free price inflation is expected to rise from 2.9% in 2023 to 3.8% in 2024. This scenario is shaped by various factors, including the inertial component of inflation (past inflation), inflation expectations for the next twelve months, the evolution of the output gap, the dynamics of the exchange rate and commodity prices. According to IFI estimates, the output gap in the second quarter of 2023 is open, standing at around 0.7%[4] of potential output, and a moderate reversal to negative territory is projected throughout 2024. As for commodities, the current downward trend is expected to continue, with the hypothesis of a gradual return to the historical average.

As indicated in the minutes of the November decision, in which the Selic rate was reduced to 12.25%, Copom signaled its intention to continue the downward trend in the economy's basic interest rates in the next two meetings, scheduled for December and January. This is due to the inflation and economic activity scenario unfolding as expected. However, the minutes revealed new concerns regarding the domestic fiscal scenario, highlighting the uncertainty regarding compliance with the primary balance target and the possibility of it being altered. Copom also expressed apprehension about international conditions and their possible impact on domestic inflation. Although these concerns shouldn't affect the short-term scenario, with the Selic rate expected to end 2023 at 11.75%, they could influence the extension of the cycle over the next year. **In the baseline scenario, the Selic rate is expected to reach 9.5% by the end of 2024.**

1.3 Medium-term projections

In the baseline scenario, the idleness of the economy, as measured by the output gap, is expected to be eliminated by 2025, when GDP will begin to grow in line with its potential[5]. For the period from 2025 to 2033, growth is expected to stabilize at around 2.0%, slightly below the historical average of 2.2% between 1997 and 2022 (Graph 2). These projections are made up of the following contributions: (i) +0.6 p.p. in total factor productivity (TFP), roughly in line with the historical average; (ii) +0.9 percentage point in the capital stock (K), slightly above the historical average of 0.7 p.p.; and (iii) +0.5 p.p. in the labor stock (L), below the historical average of 0.9 p.p., due to the expectation of slower growth in the labor force because of the aging of the population.

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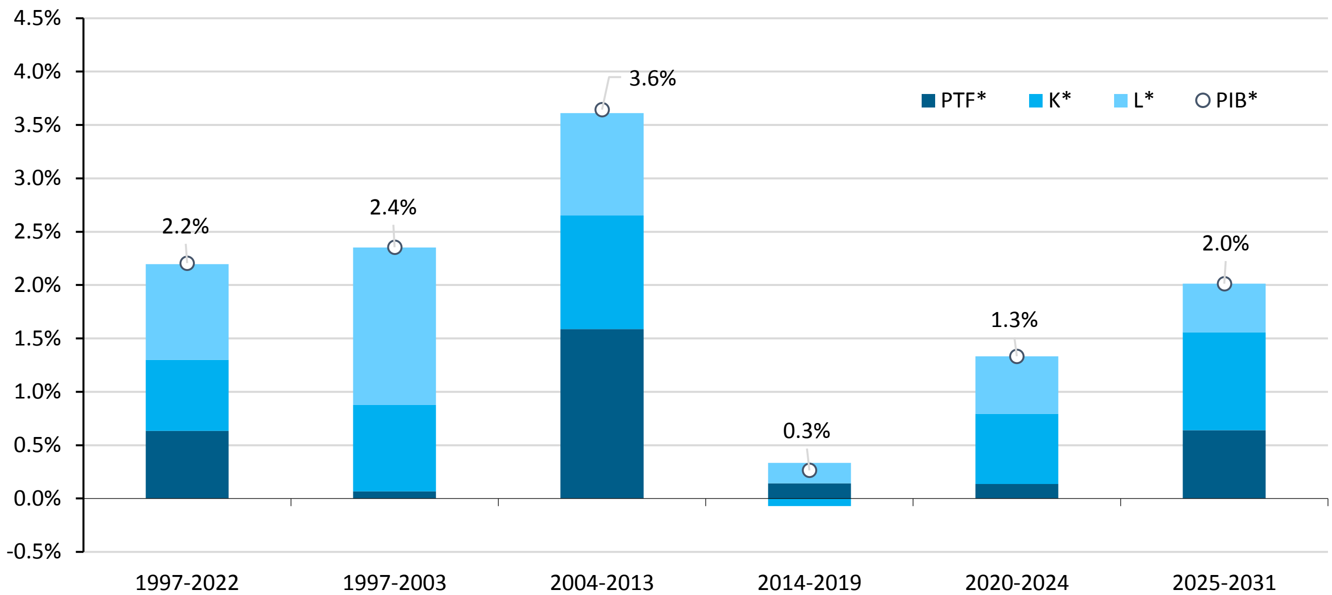
[4] The historical series of the output gap calculated by the IFI can be accessed at: https://bit.ly/3ujOCqG

[5] According to this methodology, the level of output reflects the size of the capital stock, the number of work hours offered by the employed population and total factor productivity (combined productivity of capital and labor inputs). For more information, see the Special Study No. 4, available at: https://bit.ly/3FZo2pl.

GRAPH 2. POTENTIAL GDP GROWTH RATE DECOMPOSITION (P.P.)



Source: IFI.

The average unemployment in the period from 2025 to 2032 is estimated at 8.5% of the labor force, assuming that the employed population grows at the same rate as the labor force, approximately 1.0% per year. In the May update, the unemployment rate was converging towards a higher level (9.6%). This change stems mainly from the downward revision of the projections for the years 2023 and 2024, due to the relatively tight conditions in the labor market.

When actual GDP grows in line with the potential rate and inflation stabilizes at the target of 3.0%[6], the Selic rate (7.0%) starts to reflect the value of the natural nominal interest rate, made up of the real interest rate plus the inflation target. Over the projection horizon, the real interest rate (4.0%) is derived by assuming a parity relationship, in which the domestic interest rate is equal to the international interest rate, plus the country risk premium and the expected depreciation of the exchange rate.

The country risk trajectory[7] is defined based on the assessment and judgment of assumptions about the domestic and international environments. **In the baseline scenario, the risk premium is set at 250 points, just above the current level,** and the average exchange rate forecast between 2025 and 2033 is BRL/US$ 5.28, with an average depreciation of 0.9%. It is assumed that the variation in the exchange rate in the medium term is given by the difference between domestic and foreign inflation.

As a measure of the international interest rate, we take the effective interest rate practiced by the Federal Reserve Bank (Fed) minus U.S. inflation, both derived from the scenarios presented by the *Congressional Budget Office* (CBO)[8]. In the baseline scenario, we assume that American inflation returns to the target of 2.0% and the nominal interest rate in the US reaches the level of 2.5%, in line with the Fed's median estimate for the long-term federal funds rate.

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[6] Assuming the continuity of the inflation targets set by the CMN.

[7] Represented by the variable Embi-Br.

[8] Available at:https://bit.ly/49DGxxh.

1.4 Alternative scenarios

As a way of covering the uncertainties inherent in projections of the macroeconomic scenario, we present, in addition to the baseline scenario, the trajectories of the main macro-fiscal variables in two alternative scenarios (optimistic and pessimistic). Deviations from the central projection result from changes based on assumptions and judgments in the trajectory of exogenous variables (determined outside the model), such as global economic growth, commodity prices, country risk and total factor productivity, generating scenarios that are either more or less favorable compared to the baseline.

In the pessimistic scenario, the presence of more unfavorable conditions in the international environment and in the domestic fiscal scenario could lead to a deterioration in confidence, financial asset prices and inflation expectations. With inflation projections exceeding the target over the forecast horizon, the nominal interest rate is expected to rise. This pessimistic scenario is characterized by a substantially slower product response. Between 2025 and 2033, the average GDP growth rate would be 1.0% and the real interest rate would converge to a higher level, around 6.4%. In this context, we believe that the *Fed Funds* rate will rise to 3.5%, in line with the current outlook of some US Central Bank authorities[9].

In the optimistic scenario, we see a more favorable environment for economic growth. During the period from 2025 to 2033, average GDP growth is projected at 3.2%, assuming an average annual increase of 1.5% in total factor productivity, the variation observed between 2004 and 2013 (Graph 3), while the real interest rate converges to 3.0%. In this context, the possibility of positive gains from the approval of the tax reform on GDP growth is considered. The difference of 1.2 p.p. in the 2025-2033 average between the baseline scenario and the optimistic one for GDP is attributed to higher growth in productivity and the capital stock.

A recent document released by the Organization for Economic Cooperation and Development (OECD)[10] highlights that the current reform proposal would bring Brazil closer to international best practices, reducing the distortions associated with the complexity of the current tax system. This change is seen as potentially beneficial for productivity and economic growth. However, the expansion of exceptions and the introduction of reduced rates could limit the gains expected from the reform.

Some studies[11] on the macroeconomic impacts of the reform on potential GDP indicate a certain consensus regarding the positive effect on growth, although there is controversy as to its magnitude. Estimates for the long-term increase in the level of GDP vary from 2.5% to 20%, which would be equivalent to an increase in annual GDP growth of between 0.2 p.p. and 1.2 p.p.

Considering the uncertainties associated with these estimates and the challenge of approving complementary laws to detail the general rules set out in the proposal after enactment, as well as the development of the government's management and technological structure to conduct the transition from 2026 to 2033, it was decided to consider the most conservative effect (0.2 p.p.) at this early stage.[12].

Table 4 summarizes the IFI's macroeconomic projections for the baseline and alternative scenarios.

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[9] See, for example, https://bit.ly/46eEJb3.
[10] "*Redesigning Brazil's consumption taxes to strengthen growth and equity*", available at: https://bit.ly/3uoKrJY.
[11] See the bibliographical review contained in the report "Resultados do Grupo de Trabalho sobre a Reforma Tributária" [Results of the Working Group on Tax Reform] by the Federal Accounting Court (TCU), available at: https://bit.ly/3sAL9Ua .
[12] Oliveira, J. M. (2023). "Propostas de reforma tributária e seus impactos: Uma avaliação comparativa" [Tax reform proposals and their impacts: A comparative assessment], Carta de Conjuntura, Ipea. Available at: https://bit.ly/3MST1Hk.

TABLE 4. PROJECTIONS FOR THE BASELINE, OPTIMISTIC AND PESSIMISTIC SCENARIOS

	Baseline			Optimistic			Pessimistic		
Version: November 2023	**2023**	**2024**	**2025-2033**	**2023**	**2024**	**2025-2033**	**2023**	**2024**	**2025-2033**
Nominal GDP (BRL billion)	10.688	11.338	15.233	10.693	11.410	16.259	10.680	11.282	15.423
GDP - Real growth rate (%)	3,0	1,2	2,0	3,2	2,4	3,2	2,7	0,1	1,0
Implicit GDP deflator (% average annual change)	4,7	4,8	3,7	4,5	4,2	3,7	4,9	5,5	5,0
IPCA (% average annual change)	4,6	4,0	3,1	4,4	3,3	3,0	4,8	4,6	4,4
IPCA (% change year on year in December)	4,6	4,0	3,0	4,4	3,4	3,0	4,9	4,7	4,4
Unemployment rate (% of workforce)	8,2	8,5	8,5	8,1	7,5	7,5	8,3	9,2	10,2
BRL/US$ exchange rate (end of period)	5,00	5,08	5,28	4,83	4,88	5,06	5,20	5,32	5,91
Risk premium - Embi (end of period)	200	250	250	185	200	200	215	330	330
Selic (%)	11,75	9,50	7,19	11,75	8,50	6,10	11,75	11,00	11,00
Real interest (%)	6,2	5,3	4,0	6,1	4,4	3,0	7,7	7,8	6,4
Version: May 2023	**2023**	**2024**	**2025-2032**	**2023**	**2024**	**2025-2032**	**2023**	**2024**	**2025-2032**
Nominal GDP (BRL billion)	10.551	11.265	14.881	10.554	11.327	14.983	10.528	11.282	14.698
GDP - Real growth rate (%)	1,0	1,4	2,0	1,7	2,4	3,0	0,4	0,4	1,0
Implicit GDP deflator (% average annual change)	5,3	5,3	4,0	4,7	4,8	3,8	5,8	6,7	5,4
IPCA (% average annual change)	5,1	4,9	3,4	4,5	4,4	3,2	5,6	6,3	4,8
IPCA (% change year on year in December)	6,0	4,1	3,2	5,4	3,6	3,0	6,5	5,5	4,6
Unemployment rate (% of workforce)	9,5	9,6	9,6	8,7	8,7	8,7	10,1	10,6	11,5
BRL/US$ exchange rate (end of period)	5,21	5,30	5,52	5,08	5,15	5,31	5,40	5,57	6,18
Risk premium - Embi (end of period)	270	270	270	220	220	220	370	370	370
Selic (%)	13,00	10,50	7,30	12,50	9,50	6,28	13,75	12,50	10,21

Source: IFI.

2. FISCAL SCENARIOS

2.1 Scenarios for total revenue, transfers and net revenue

The IFI's new macroeconomic projections, presented in the previous section, were used to update the central government's primary revenue projections for the period from 2023 to 2033. This introductory section will discuss elements inherent to the current fiscal policy context and the assumptions used for revenue projections. Where relevant, comparisons will be made with the projections of the latest scenario review, published by the IFI in May 2023.

The first point to mention concerns the income-GDP elasticities considered. The central government's primary revenue projections continued to be based on the results presented by the IFI in Special Study (EE) No. 16[13], of November 2021. Generally speaking, in the short term, the revenue-GDP elasticities can oscillate around 1; in the long term, however, the elasticities tend to revert to 1, so that revenue evolves in line with economic growth.

The relative accommodation (and even decline in some taxes) of primary revenues in 2023 shows that the gains in revenue seen in 2021 and 2022 were due more to the positive shock caused by the increase in commodity prices, which influenced the Brazilian economy's terms of trade. In the coming years, the IFI does not expect increases in revenue like those seen in the last two years. Growth in tax revenues is expected to be more in line with the evolution of economic activity.

[13] Link to the document: https://tinyurl.com/26uzeuw8.

The second point to mention concerns the consumption tax reform currently underway in Congress. The proposal, which should be approved before the end of the year, has the potential to influence the domestic macroeconomic environment and the potential growth of the economy over time. The reform could also affect revenue-GDP elasticities over time. The effects, however, are difficult to measure at the moment, as they would require the reform to be implemented and a sample with information to update these parameters.

In addition, the phases of implementation and regulation of the reform - through complementary legislation - maintain uncertainties in the scenarios for central government revenues. Bills will need to be sent by the Executive for consideration by the Congress within 180 days of the Legislature's approval of the final text. Therefore, there will be a need for discussions around fundamental aspects of the implementation of the new tax system, such as the inclusion of more sectors with differentiated treatment, which could dilute the effects of the reform. With regard to the selective tax, for example, the uncertainties lie in the list of products that will be subject to it.

The third point to be clarified in relation to the Federal Government's primary revenue projections relates to the extension of the payroll tax exemption for 17 sectors of the economy. On October 26, Bill 334 of 2023 was approved by the Federal Senate and sent to the President for sanction. The deadline for sanctioning is November 23, 2023. The proposal provides for the extension of the payroll tax exemption until December 31, 2027, with an impact of BRL 9.4 billion estimated by the Brazilian Federal Revenue Office (RFB)[14]. The compensation provided for in the original version of the proposal and maintained afterwards is the extension of the collection of 1.0 p.p. in the Cofins-import rate until December 2027.

During the processing of Bill No. 334, 2023, in the Chamber of Deputies, there was a substantive change to the proposal, including the payroll tax exemption for municipalities, according to certain criteria. The original text of Bill 334 established the replacement of the employer's social security contribution of 20% on payroll with rates of 1% to 4.5% on companies' gross revenue. The final text[15], approved by the Senate on October 25, set a reduction in the social security contribution rate from 20% to 8% for municipalities with up to 142,632 inhabitants. The impact of extending the scope of the exemption to municipalities has not been updated by the RFB.

The fourth and final point related to the central government's primary revenue projections for the period from 2023 to 2033 concerns the measures to increase collection contained in the 2024 Annual Budget Bill (PLOA 2024). This subject was the subject of an article published in RAF no. 80, September 2023[16], entitled "PLOA 2024 considera projeções otimistas para as receitas do governo" [PLOA 2024 considers optimistic projections for government revenues]. Table 5 shows a list of these measures, taken from the presidential message[17] that accompanied the submission of the PLOA 2024 to Congress on August 31st.

[14] The amount of BRL 9.4 billion is mentioned in the report by Senator Ângelo Coronel, the rapporteur of the matter in the Senate's Committee on Economic Affairs (CAE). Report available at: https://tinyurl.com/mrxppb87.

[15] Link to the page with data on the processing of the matter: https://tinyurl.com/7umwxnb5.

[16] Document available at: https://tinyurl.com/y2t77bcn.

[17] Link to the document: https://tinyurl.com/2munb335.

TABLE 5. MEASURES APPROVED OR BEING DISCUSSED IN CONGRESS WITH AN IMPACT ON CENTRAL GOVERNMENT REVENUE IN 2024

PLOA 2024				Amount considered by the IFI - baseline scenario (BRL billion)	Amount considered by IFI - optimistic scenario (BRL billion)	Amount considered by the IFI - pessimistic scenario (BRL billion)
Measure	Budget iimpact in 2024					
	Tax	Legislative proposal	Total (BRL billion)			
Total [1+2+3]			**276.4**	**105.3**	**131.0**	**84.7**
Legislative measures [1+2]			**168.5**	**48.6**	**71.4**	**30.9**
Revenue collected by the RFB [1]			**167.6**	**47.6**	**70.4**	**30.0**
Investment subsidies	IRPJ, CSLL, PIS/Cofins	Provisional Measure No. 1.185, of 2023 / Bill No. 5.129, of 2023	35.3	3.5	5.3	1.8
Fixed-odds betting	Income tax, other revenues collected by RFB	Provisional Measure No. 1.182, of 2023	0.7	0.7	0.7	0.7
New simplified taxation system (RTS)	Import tax	RFB Normative Instruction 2.146, of June 29, 2023	2.9	2.9	2.9	2.9
Closed-end funds - stock and flow	Income Tax	Provisional Measure No. 1.184, of 2023	13.3	6.6	9.3	3.3
Individual CFCs and taxation of financial assets held abroad by individuals*(offshores)*	Income Tax	Bill No. 4.173 of 2023	7.0	3.5	4.9	1.8
End of deductibility of interest on equity capital	IRPJ, CSLL	Bill No. 4.258 of 2023	10.4	0.0	5.2	0.0
Credit recovery at CARF	IR, CSLL, PIS/Cofins, IPI, social security contributions, others	Law 14.689 of 2023	97.9	30.3	42.1	19.6
Revenue not collected by RFB [2]			**0.9**	**0.9**	**0.9**	**0.9**
Fixed odds lottery fees	Control and inspection fees	Bill No. 3.626 of 2023	0.9	0.9	0.9	0.9
Other income [3]			**107.9**	**55.8**	**58.7**	**52.9**
End of fuel tax exemption	PIS/Cofins	Provisional Measures No. 1.175 and No. 1.178, of 2023	30.0	30.0	30.0	30.0
Exclusion of ICMS from the calculation basis of PIS/Cofins credits	PIS/Cofins	Law no. 14.592, of May 30, 2023	57.9	5.8	8.7	2.9
Transfer prices	IR, CSLL	Law no. 14.596, of June 14, 2023	20.0	20.0	20.0	20.0

Source: PLOA 2024. Prepared by: IFI.

Below is a summary of the current status of the measures still awaiting congressional approval (Table 5):

- Investment subsidies (Provisional Measure No. 1.185, of 2023): the matter is awaiting the installation of a joint committee to analyze the provisional measure. The press is reporting that there is no agreement to vote on the proposal. For this reason, on October 24, the Executive Branch sent Bill No. 5,129 of 2023, with the same content as the provisional measure and on an urgent basis. The government's intention is still to approve the Provisional Measure, since its effects would be valid for the whole of 2024. If the bill is approved, it would take effect ninety days after the law's publication, which would reduce the effects on tax revenues next year;

- Fixed-odds betting (Provisional Measure No. 1,182 of 2023): the matter is awaiting the installation of a joint committee that will analyze it. On September 14, the deadline for analyzing the Provisional Measure was extended for another 60 days;

- Closed-end funds - stock and flow (Provisional Measure No. 1,184, of 2023): the matter on the taxation of investment funds is awaiting installation of a joint committee. On October 20, the deadline for analysis was extended by another 60 days;

- Federal Accounting Council (CFC) for individuals and taxation of financial assets held abroad by individuals (offshores) (Bill No. 4.173, of 2023): matter approved by the plenary of the Chamber of Deputies on October 25 and sent to the Federal Senate on October 30. During its passage through the Chamber of Deputies, the proposal was changed, reducing the impact on tax collection[18]. The PLOA 2024 presents an estimate of BRL 20.3 billion for these sources of revenue next year. So far, following the approval of the matter in the Chamber of Deputies, there is no new forecast of the measure's impact on tax revenues;

- Ending the deductibility of interest on equity (Bill No. 4.258 of 2023): the bill was sent by the Executive to Congress on August 31 on an urgent basis. On September 6, the Executive sent a message requesting the withdrawal of the urgent procedure for the proposal, which is awaiting analysis by the Chamber of Deputies;

- Recovery of credits at the Administrative Council for Tax Appeals (Carf) (Law No. 14.689, of 2023): originating from Bill No. 2.384, of 2023, it was sanctioned with a partial veto[19], which still needs to be analyzed by Congress. There was no change in the Executive's estimate of the measure's impact on revenue in 2024, which remains at BRL 97.9 billion; and

- Fixed-odds lottery fees (Bill No. 3.626, of 2023): this matter was approved by the Chamber of Deputies on September 13 and sent to the Federal Senate for analysis, where it is being processed simultaneously by the Committees on Sports and on Economic Affairs.

Table 5 was originally presented in RAF No. 80, in September 2023[20]. Some of the figures in the table have been updated. For the taxation of *offshore* companies (Bill No. 4.173 of 2023), the IFI increased the amount considered for the purpose of collection in 2024, from BRL 1.1 billion to BRL 4.9 billion in the baseline scenario. The IFI also increased the amount of revenue expected from the taxation of closed-end funds for individuals, from BRL 2.0 billion to BRL 9.3 billion.

For Bill 4.258 of 2023, which stipulates the end of the deductibility of interest on equity capital, the IFI now predicts, in the optimistic scenario, an inflow of BRL 5.2 billion next year. The PLOA 2024 estimates that BRL 10.4 billion will be collected from this source of revenue.

The increase in the amounts forecast by the IFI from the sources of revenue mentioned above was based on more qualitative evidence from Congress of its intention to approve the measures, albeit with a smaller impact than forecast in the budget proposal.

[18] With regard to the periodic taxation of closed funds, the tax rate on income accrued up to December 31, 2023 was reduced from 10% to 8%, with payment expected in four monthly installments. Special tax situations were also maintained for certain funds, such as real estate investment funds and infrastructure investment funds.
[19] Veto No. 27, of 2023, in progress. Webpage to access the matter:https://tinyurl.com/yvn38rkv.
[20] See Page 11, Table 7 of the aforementioned document.

Some additional considerations are necessary. Most of the revenue amounts forecast by the Executive in the PLOA 2024 refer to the taxation of subsidies obtained by taxpayers within the scope of the Tax on Operations Related to the Circulation of Goods and on the Provision of Interstate and Intermunicipal Transportation and Communication Services - ICMS - (investment subsidies), the recovery of credits within the scope of Carf and the exclusion of ICMS from the calculation basis of PIS and Cofins credits. The three measures add up to BRL 191.1 billion (69.1% of the BRL 276.4 billion that can be spent, according to the PLOA 2024).

For the taxation of ICMS subsidies and the exclusion of ICMS from the PIS and Cofins calculation base, the amounts considered by the IFI are justified due to the high uncertainties associated with the materialization of these revenues, as they are conditional on the settlement of legal disputes between taxpayers and the Federal Government. There is a great possibility of legal disputes over these issues and the amounts involved. Thus, the amounts considered by the IFI for entry in 2024 represent, more than estimates, which are very difficult to make with the information available, the risk associated with the materialization of these revenues in the short term.

Regarding the Carf credit recovery measure, which indicates the possibility of an important source of revenue for the central government next year, the IFI chose to consider in the baseline scenario, as mentioned in RAF No. 80, of September 2023, around 10% of the amounts arising from judgments favorable to the Federal Government in 2018 and 2019, the two years prior to the change made to Carf's casting vote.

In short, based on Table 5, considering the legislative proposals currently underway and other laws that have already been sanctioned, the Executive foresees the realization of up to BRL 276.4 billion (2.3% of GDP) in additional revenues in 2024, while the IFI considers BRL 105.3 billion (1.0% of GDP) in the baseline scenario, BRL 131.0 billion (1.2% of GDP) in the optimistic scenario and BRL 84.7 billion (0.8% of GDP) in the pessimistic scenario.

In view of the uncertainties surrounding aspects of the tax reform to be regulated and possible legal disputes involving divergent legal arguments from the Federal Government and taxpayers, in this review of medium-term scenarios, the IFI has maintained a conservative stance in relation to revenue projections in the three reference scenarios.

2.1.1 Short-term projections: 2023–2024

Table 6 shows the new IFI projections for central government primary revenue in 2023 and 2024, comparing them to the May 2023 projections. In the May scenarios, information was available up to March, while in the current revision the data is updated with information from the Treasury and the Siga Brasil Portal up to October.

TABLE 6. IFI BASELINE SCENARIO FOR CENTRAL GOVERNMENT PRIMARY REVENUE IN 2023 AND 2024 (BRL BILLION AND % OF GDP)

Baseline scenario (BRL billion)	Review May/23				Review Nov/23				Diff. Nov/23-May/23			
	2023	% of GDP	2024	% of GDP	2023	% of GDP	2024	% of GDP	2023	p.p. of GDP	2024	p.p. of GDP
1. Total primary revenue	**2,360.30**	**22.40%**	**2,575.10**	**22.90%**	**2,346.80**	**22.00%**	**2,486.10**	**21.90%**	**-13.5**	**-0.4**	**-89**	**-0.9**
Revenue collected by the RFB/MF, except RGPS and without tax incentives	1,488.40	14.10%	1,614.00	14.30%	1,436.80	13.40%	1,559.50	13.80%	-51.6	-0.7	-54.5	-0.6
Net collection for the RGPS	578.3	5.50%	638.8	5.70%	588.7	5.50%	614.8	5.40%	10.4	0	-24	-0.2
Revenues not collected by the RFB/MF	293.5	2.80%	322.3	2.90%	321.3	3.00%	311.9	2.80%	27.8	0.2	-10.5	-0.1
Tax incentives	0	0.00%	0	0.00%	-0.1	0.00%	0	0.00%	-0.1	0	0	0
2. Revenue-sharing transfers	**472.6**	**4.50%**	**516.6**	**4.60%**	**472.5**	**4.40%**	**498.6**	**4.40%**	**-0.1**	**-0.1**	**-18**	**-0.2**
3. Net transfer revenue [(1)-(2)]	**1,887.70**	**17.90%**	**2,058.50**	**18.30%**	**1,874.30**	**17.50%**	**1,987.50**	**17.50%**	**-13.4**	**-0.4**	**-71**	**-0.7**

Source: National Treasury Secretariat. Prepared by: IFI.

As shown in Table 6, there were downward variations in the projection of the central government's total primary revenue in 2023 and 2024 between the May and November 2023 scenario revisions. The figures refer to the baseline scenario. The expectation for 2023 was BRL 13.5 billion (0.4 p.p. of GDP) lower, while the estimate for 2024 was revised downwards by BRL 89.0 billion (0.9 p.p. of GDP). The reasons for the revision in the IFI's short-term revenue projections are explained below.

Firstly, it is important to mention that the estimates consider, in an initial stage, a revenue-GDP elasticity applied to recurring revenues[21]. In a second stage, they take into account the sum of any non-recurring values or base reconstitution throughout the projection period. For example, the values related to the revenue-increasing measures presented in Table 5 are added to the projected recurring revenues and updated by the variation in nominal GDP in the subsequent years.

Another important observation concerns the commodities shock that occurred in 2021 and 2022, which boosted economic activity and the Federal Government's (and other federal entities') recurring revenues. According to IFI's methodology for calculating recurring revenues, the effects of higher commodity prices are not fully expunged from recurring revenues.

Thus, recurring revenue projections end up carrying the effects of improved terms of trade for the rest of the projection period. As further explained in this text, it is for this reason that the current projections, which incorporate the actual data from January to October 2023 when the effects of commodity prices on revenue weakened, are lower (in current values and as a proportion of GDP).

The estimate for revenue collected by RFB was revised down by BRL 51.6 billion (0.7 p.p. of GDP) in 2023 and BRL 54.5 billion (0.6 p.p. of GDP) next year. The main reason for this revision was that the revenue collected was lower than previously projected. By way of illustration, in May, the IFI projected a collection of BRL 852.3 billion in revenues collected by RFB between April and October of this year, while the actual amount was BRL 811.5 billion, which is BRL 40.8 billion less. This frustration of revenue occurred in all the taxes administered by RFB, especially in Corporate Income Tax (IRPJ) and Social Contribution on Net Profit (CSLL)..

For 2024, in addition to the weaker basis of comparison now against the figures considered in May, there was a downward revision in the IFI's expectation for the performance of nominal GDP. The current projection, as discussed in the previous section, is for an increase of 6.1% in 2024, compared to the expectation of an increase of 6.8% in the May scenario review.

In May, the IFI projected net collections for the RGPS of BRL 578.3 billion in 2023, and now BRL 588.7 billion. The reason for the BRL 10.4 billion increase in this year's projection was that the volume collected was higher than projected in May. According to the Treasury and Siga Brasil, RGPS revenue was BRL 7.7 billion higher than projected by the IFI between April and October this year. For 2024, there was a downward revision in the projected values by IFI, amounting to BRL 24.0 billion between the reviews conducted in May and November. This was a result of the downward revision of nominal GDP growth and the extension of payroll tax relief to the 17 sectors of the economy, which will reduce this revenue by BRL 9.4 billion next year.

Between April and October, the so called non-administered revenues [which are those not collected by RFB] totaled BRL 204.2 billion, BRL 22.9 billion higher than projected by the IFI in May, which partly motivated the upward revision in expectations for this group of revenues in 2023 (by BRL 27.8 billion). The higher collection in this seven-month period was mainly due to the collection of dividends and participations (an increase of BRL 10.3 billion) and other revenues (an increase of BRL 35.5 billion). This increase in the group of other revenues is explained by the transfer to the Treasury of unclaimed PIS/PASEP accounts amounting to BRL 26.0 billion in September.

The IFI's projection for non-administered revenue in 2024 was revised downwards by BRL 10.5 billion in November compared to the estimate presented in May. This change was mainly caused by the expectation of revenue from the exploitation of natural resources (BRL 30.7 billion less), which in turn was reduced because of a change in the BRL/US$ exchange rate projection for 2024. The other variables that affect natural resource collection (domestic production and the average price of a barrel on the international market) were kept the same.

[21] For a description of the recurring revenues considered by the IFI, see Special Study No. 17 of December 2021. Page to access the document: https://tinyurl.com/2e47tyjz.

For revenue-sharing transfers, the IFI's projection for 2023 was kept practically unchanged between May and now (at BRL 472.5 billion), while the expectation for 2024 was reduced by BRL 18.0 billion (BRL 498.6 billion now, compared to BRL 516.6 billion in May). Basically, this reduction in the projection for transfers next year was due to a change in the projection for revenues collected by the RFB [also referred to throughout this document as administered revenues]. As explained in previous editions of the scenario review reports, the IFI projects transfers as a percentage of that revenue, given the absence, to date, of estimates disaggregated by tax.

Thus, as shown in Table 6, the projections for the central government's net revenue[22] are now BRL 1,874.3 billion in 2023 and BRL 1,987.5 billion next year. These figures imply that net revenue as a proportion of GDP is stable at 17.5%.

2.1.2 Medium-term projections: 2025–2033

On the side of the revenues collected by the RFB, the scenarios consider a continuous increase in collection from 2023 onwards, with economic growth converging to rates of around 2.0% (baseline scenario), 3.2% (optimistic) and 1.0% (pessimistic). Economic activity also influences net revenue for the RGPS and some sub-groups of non-administered revenue, such as dividends, exploitation of natural resources, contributions for education aids programs, etc.

Continued real GDP growth over time could also favor non-administered revenues, such as concessions and permits, by attracting foreign capital's interest in infrastructure assets in Brazil. The growth of the economy also allows for a recomposition of the tax bases of various taxes, which can eventually increase the elasticity of government revenues for a certain period of time. The IFI's EE No. 16, referenced in this text, estimated the elasticities of tax collection in relation to GDP considering short and long term horizons, as well as situations in which the output gap[23] is positive or negative.

Table 7 shows the projections for total gross revenue and its components (revenue collected by the Federal Revenue Office, RGPS and non-administered revenue), as well as projections for transfers to sub-national entities and for net revenue in the baseline, optimistic and pessimistic scenarios for the period 2023 to 2033.

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[22] The Federal Government's net revenue corresponds to total revenue minus revenue-sharing transfers to sub-national entities. An example of this deduction are the State and Municipal Participation Funds (FPE and FPM), which receive part of the collection of Income Tax and Tax on Industrialized Products (IR and IPI).

[23] Output gap is an unobservable variable that seeks to measure the deviations of GDP from what would be the potential growth of an economy. If this difference is positive, the gap is said to be positive; if it is negative, the gap is negative. And if the difference is close to zero, GDP is considered to be growing at the potential level.

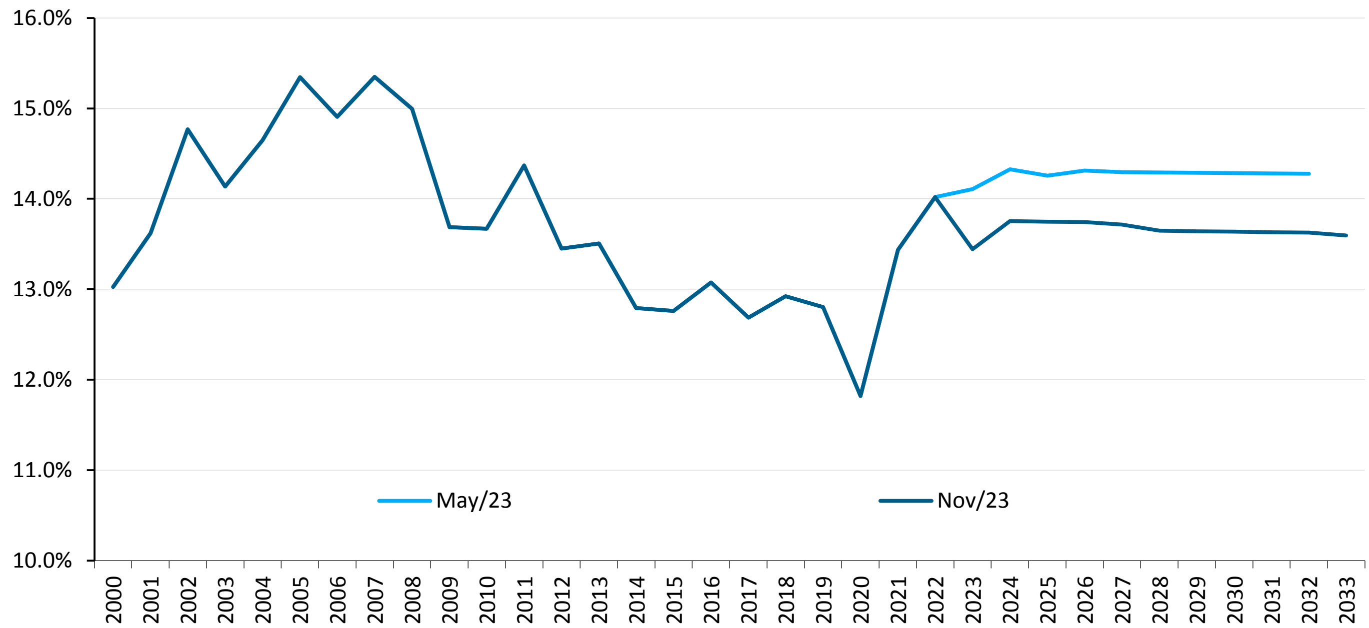
TABLE 7. IFI PROJECTIONS FOR CENTRAL GOVERNMENT PRIMARY REVENUES - % OF GDP

BASELINE SCENARIO	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Total revenue	**22.0%**	**21.9%**	**21.9%**	**21.9%**	**21.9%**	**22.0%**	**22.1%**	**22.0%**	**21.9%**	**21.8%**	**21.7%**
Revenue administered by the RFB, except RGPS	13.4%	13.8%	13.7%	13.7%	13.7%	13.6%	13.6%	13.6%	13.6%	13.6%	13.6%
Net collection for the RGPS	5.5%	5.4%	5.4%	5.4%	5.4%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%
Revenue not administered by the RFB	3.0%	2.8%	2.7%	2.8%	2.8%	2.9%	2.9%	2.9%	2.8%	2.7%	2.6%
Revenue-sharing transfers	**4.4%**	**4.4%**	**4.5%**	**4.4%**	**4.5%**	**4.5%**	**4.5%**	**4.5%**	**4.5%**	**4.5%**	**4.5%**
Net revenue	**17.5%**	**17.5%**	**17.4%**	**17.5%**	**17.5%**	**17.6%**	**17.6%**	**17.5%**	**17.4%**	**17.3%**	**17.2%**
OPTIMISTIC SCENARIO	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**
Total revenue	**22.0%**	**22.0%**	**22.0%**	**22.0%**	**22.0%**	**22.1%**	**22.1%**	**22.0%**	**21.9%**	**21.8%**	**21.6%**
Revenue administered by the RFB, except RGPS	13.4%	13.8%	13.7%	13.7%	13.7%	13.6%	13.6%	13.6%	13.6%	13.6%	13.6%
Net collection for the RGPS	5.5%	5.4%	5.4%	5.4%	5.4%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%
Revenue not administered by the RFB	3.0%	2.8%	2.8%	2.8%	2.9%	2.9%	3.0%	2.9%	2.8%	2.7%	2.5%
Revenue-sharing transfers	**4.4%**	**4.4%**	**4.5%**	**4.4%**	**4.5%**	**4.5%**	**4.5%**	**4.5%**	**4.5%**	**4.5%**	**4.5%**
Net revenue	**17.5%**	**17.6%**	**17.5%**	**17.6%**	**17.5%**	**17.6%**	**17.6%**	**17.5%**	**17.4%**	**17.3%**	**17.1%**
PESSIMISTIC SCENARIO	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**
Total revenue	**21.9%**	**21.7%**	**21.5%**	**21.5%**	**21.4%**	**21.4%**	**21.4%**	**21.3%**	**21.2%**	**21.0%**	**20.8%**
Revenue administered by the RFB, except RGPS	13.4%	13.7%	13.6%	13.6%	13.5%	13.3%	13.3%	13.2%	13.2%	13.1%	13.0%
Net collection for the RGPS	5.5%	5.4%	5.4%	5.3%	5.3%	5.4%	5.4%	5.3%	5.3%	5.3%	5.3%
Revenue not administered by the RFB	3.0%	2.6%	2.5%	2.6%	2.6%	2.7%	2.8%	2.7%	2.7%	2.6%	2.5%
Revenue-sharing transfers	**4.4%**	**4.4%**	**4.5%**	**4.4%**	**4.4%**	**4.4%**	**4.4%**	**4.4%**	**4.4%**	**4.3%**	**4.3%**
Net revenue	**17.5%**	**17.3%**	**17.0%**	**17.1%**	**17.0%**	**17.1%**	**17.0%**	**16.9%**	**16.8%**	**16.7%**	**16.5%**

Source: National Treasury Secretariat. Prepared by: IFI.

Graph 3 shows the trajectories forecast by the IFI for central government's administered revenues in the baseline scenario, excluding RGPS revenues, as a proportion of GDP, from 2023 to 2033. In the medium term, between 2025 and 2033, revenues collected by RFB would correspond to 13.7% of GDP in the current revision of the projections. In May, for the period from 2025 to 2032, the IFI estimated an average percentage for these revenues, as a proportion of GDP, of 14.1%.

CHART 3. REVENUES COLLECTED BY THE RFB (% OF GDP): MAY/23 AND NOV/23 UPDATES (BASELINE)



Source: National Treasury Secretariat and Central Bank. Prepared by: IFI.

After the fall observed in 2020, caused by the effects of the pandemic on economic activity, revenues collected by RFB recorded a vigorous recovery in 2021, when they reached 13.4% of GDP, and in 2022, when they achieved a level of 14.0% of GDP. This 2.2 p.p. increase in GDP between 2020 and 2022 is largely explained by the positive shock in commodity prices, which favored the resumption of economic activity in the period and tax collection. In 2023, as mentioned above, there was a slowdown in the collection of administered revenues, largely due to the fall in commodity prices.

With the fall in commodity prices, in order for administered revenues, as a proportion of GDP, to maintain the level reached at the end of 2022, the government will have to raise revenue in other ways. The measures contained in the PLOA 2024, for example, can achieve this effect. The taxes subject to the measures make up the central government's administered revenue. The amount of BRL 276.4 billion shown in Table 5 corresponds to 2.3% of GDP (in the government's projection). The BRL 105.3 billion considered by the IFI to be materialized in 2024, in the baseline scenario, represent 1.0% of GDP (in the IFI's projection). To simplify the calculation, assuming that half of this difference of 1.3 p.p. of GDP between the government's projection and that of the IFI is shared with states and municipalities, given that many of these measures consist of income tax collections, the remaining 0.7 p.p. of GDP would raise the projection of administered revenue to around 14.0% of GDP, the level actually achieved in 2022.

In other words, in the absence of a positive commodity shock and without the materialization of some of the measures to increase revenue presented in the PLOA 2024, it will be difficult to raise administered revenues to levels above those seen in 2023.

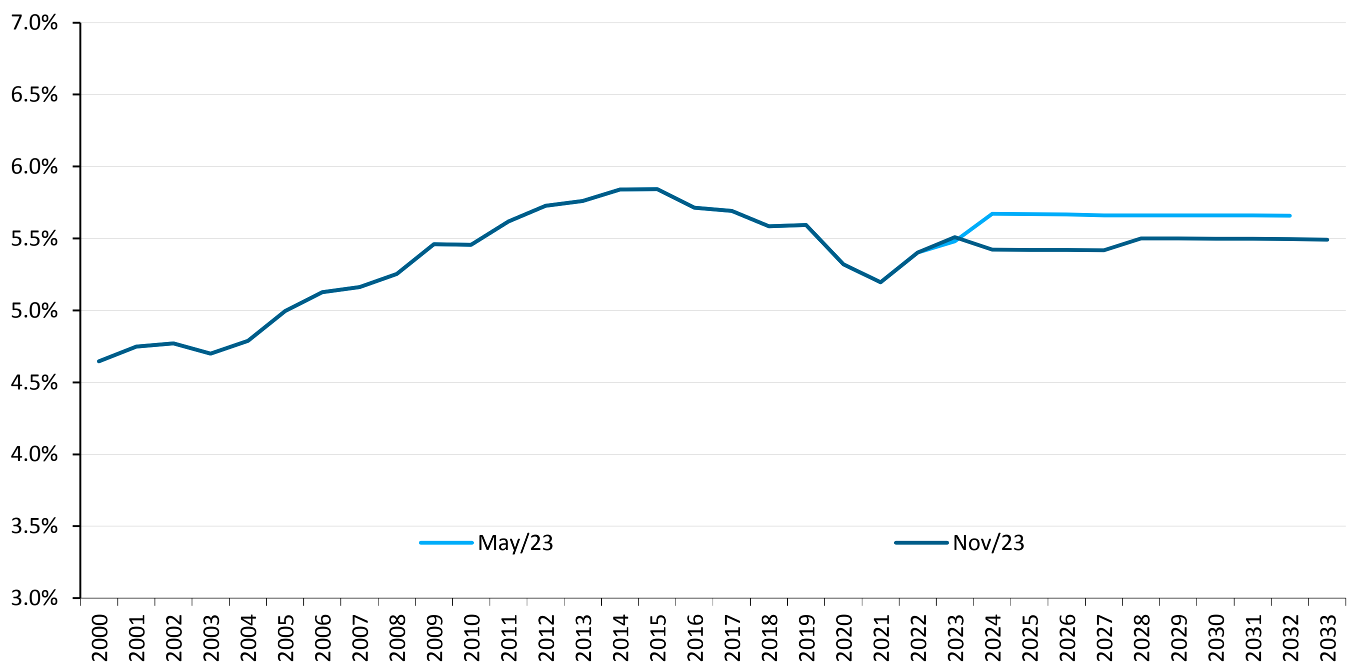
According to the results of EE No. 16, the elasticity of administered revenue in relation to GDP was 1.02 in the short term (for both a positive and negative output gap). For the long term, the estimated elasticities were 0.98 in the case of a positive output gap and 0.90 in the case of a negative output gap. The administered revenues projections presented here consider that the revenue-GDP elasticity is equal to 1 in the long term.

It is important to note that, for the purposes of the revenue projections, the two-year period from 2023 to 2024 was considered to be short term and the period from 2025 to 2033 was considered to be medium term. This also applies to the other subgroups of primary revenue, which will be presented below.

The results for the elasticity of RGPS net collection in relation to GDP found in EE No. 16 were: 0.90 (positive gap) and 0.60 (negative gap) in the short term, and 1.06 (positive and/or negative gap) in the long term. The projections presented in this report consider the following values for this elasticity: 1.02 in 2023 and 1.0 from 2024 onwards.

In the long term, an elasticity of 1.06 would mean that RGPS revenues would gradually increase their share of GDP. In recent years, however, this proportion has fallen, partly due to the exemption of companies' payrolls. By way of illustration, in 2014, net collection for the RGPS accounted for 5.8% of GDP. In 2019, before the pandemic, this share had fallen to 5.6% of GDP. By 2023, the IFI's projection is that this proportion will stand at 5.5%. From 2024, with the extension of the payroll tax exemption for 17 sectors of the economy, net collection for the RGPS is expected to fall to 5.4% of GDP and return to 5.5% of GDP as of 2028 (Graph 4).

GRAPH 4. RGPS REVENUES (% OF GDP): MAY/23 AND NOV/23 UPDATES (BASELINE)



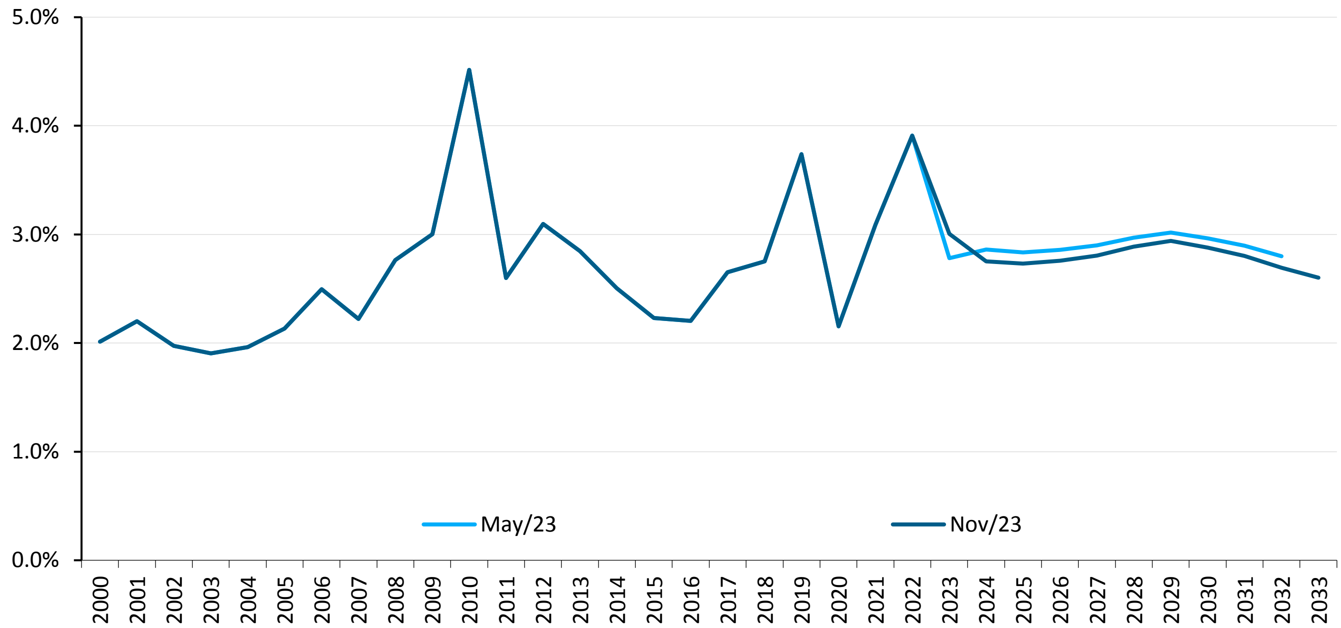
Source: National Treasury Secretariat and Central Bank. Prepared by: IFI.

Graph 5 compares the trajectories of the projections for non-administered revenues, as a proportion of GDP, referring to the current (November 2023) and May 2023 revisions in the baseline scenario. The main factor explaining the difference between the curves was the change in the projection of revenue from the exploitation of natural resources, which was reduced over the projection horizon due to the lower level of the R$/US$ exchange rate and adjustments made to the projection model used by the IFI for this revenue.

For the projection horizon from 2023 to 2033, revenues from natural resource exploitation will remain significant, as production in the pre-salt fields continues to increase According to the Plano Decenal de Expansão de Energia 2032 [Ten-Year Energy Expansion Plan 2032][24], by the Energy Research Company (EPE), domestic oil production is expected to jump from around 200 million cubic meters per year, the volume currently produced, to around 300 million cubic meters per year by the end of the decade. This increase in production tends to raise the share of revenue from the exploitation of natural resources from 1.3% of GDP to 1.5% of GDP by the end of the decade.

[24] Page to access the document: https://tinyurl.com/5ckj9rk7.

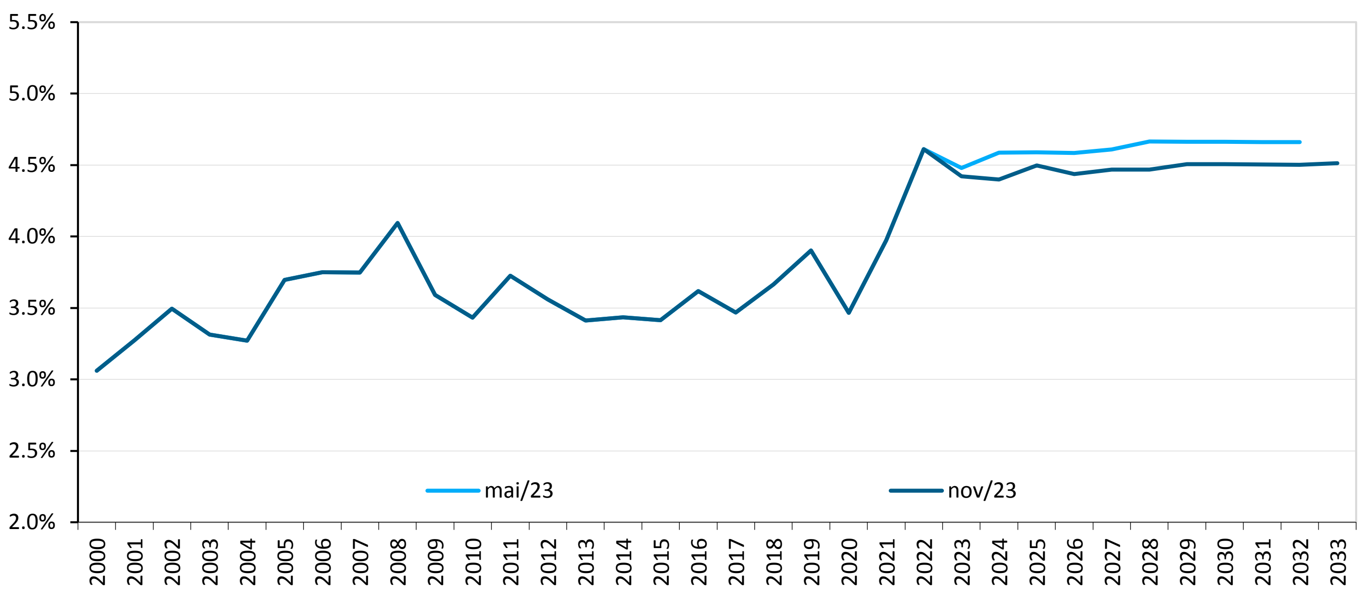
GRAPH 5. REVENUES NOT COLLECTED BY THE RFB (% OF GDP): MAY/23 AND NOV/23 UPDATES (BASELINE)



Source: National Treasury Secretariat and Central Bank. Prepared by: IFI.

Graph 6 shows the projections for revenue-sharing transfers by the central government up to 2033. It will help keep transfers at 4.4% of GDP if the Federal Government compensates BRL 15.0 billion by the end of 2023 for revenue lost by states, the Federal District and municipalities. The amount to be transferred this year also includes the figures for 2024. In 2025, a new compensation of BRL 7.2 billion is expected[25].

CHART 6. TRANSFERS (% OF GDP): MAY/23 AND NOV/23 UPDATES (BASELINE)



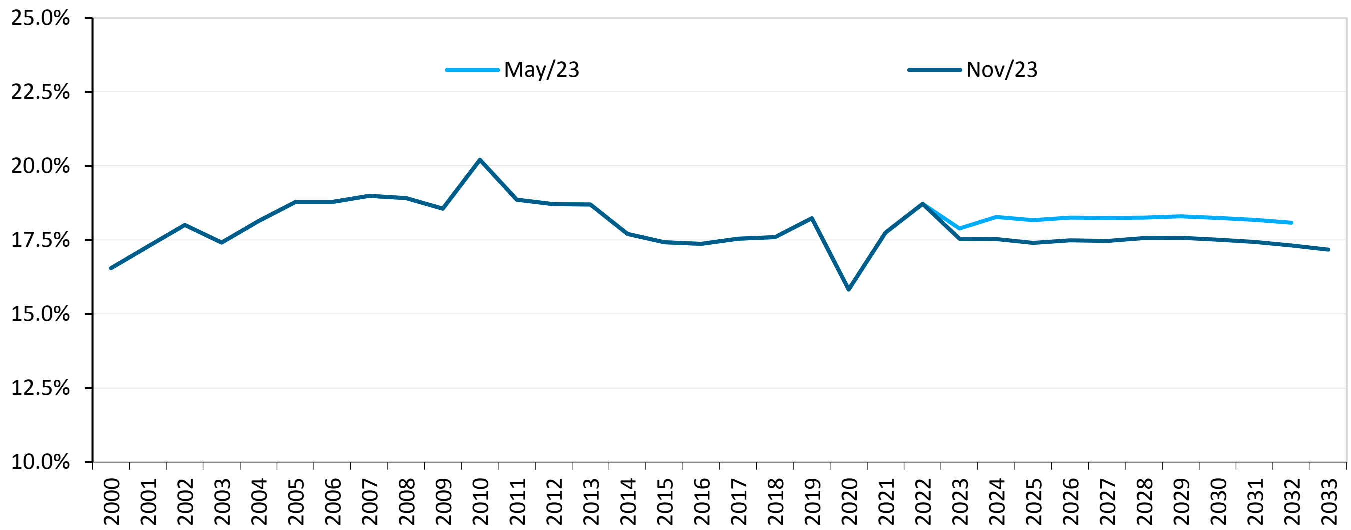
Source: National Treasury Secretariat and Central Bank. Prepared by: IFI.

[25] According to the terms of National Congress Bill (PLN) No. 40 of 2023, approved on November 9, 2023 and sent for presidential sanction. Link to data on the processing of the matter: https://tinyurl.com/w5m8waj8.

The IFI's projections indicate that transfers will remain at around 4.5% of GDP in the coming years, mainly due to the increase in the amounts transferred by the Federal Government to Fundeb (until 2026)[26], and the expected increase in the collection of taxes shared by the Federal Government with states and municipalities, such as income tax and revenues from the exploitation of resources.

Finally, Graph 7 shows the net revenue projection for the period 2023 to 2033. The IFI forecasts that the variable will reach 17.5% of GDP in 2023. In the following years, this share should remain at this level, and may fall towards the end of the projection horizon due to the reduction in revenue from the exploitation of natural resources (as a proportion of GDP), when domestic oil production begins to decline, as predicted by the EPE in the absence of discoveries of new exploration fields.

GRAPH 7. NET REVENUE (% OF GDP): MAY/23 AND NOV/23 UPDATES (BASELINE)



Source: National Treasury Secretariat and Central Bank. Prepared by: IFI.

The new projection for the central government's primary deficit in 2023 is BRL 107.9 billion or 1.0% of GDP. The deficit is slightly higher than the BRL 104.7 billion projected by the IFI in May. The reason for this revision lies mainly in the expected frustration of tax collection, as discussed in the previous section. The primary expenditure projection, in turn, decreased by BRL 10.2 billion compared to the IFI's forecast in May[27].

This scenario is compatible with meeting the BRL 65.9 billion primary deficit target, mainly as a result of the provisos made possible by Constitutional Amendment 126. In the medium term, the risk of not meeting the primary target, considering the new fiscal framework recently approved by the Chamber of Deputies, is high due to the need to increase primary revenues in order to meet the targets for the coming years. For the expenditure ceiling, the greatest possibility of non-compliance with the rule occurs from 2027 onwards, due to the trajectory of expenditure on judicial sentences and court-order debts, in view of the end of the special postponement regime instituted by Constitutional Amendments 113 and 114.

Regarding the special system for postponing the payment of court-order debts, the AGU filed a statement at the Supreme Court (STF) through the direct actions for the declaration of unconstitutionality (ADI) No. 7.047-DF and No. 7.064-DF[28], requesting the unconstitutionality of certain parts of the Constitutional Amendment on court-ordered payment orders. If the AGU's request is accepted, the liabilities issued and not paid could be settled by means of extraordinary credits to be paid in 2023, being excluded from the fiscal targets for the coming years and with payments following the general regime.

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[26] According to Constitutional Amendment 108, the Federal Government's supplementation to Fundeb will rise from 10% in 2020 to 23% in 2026, as follows: 12% in 2021, 15% in 2022, 17% in 2023, 19% in 2024, 21% in 2025 and 23% in 2026.

[27] As mentioned above, the comparison is based on the May scenario, since that was the last period with medium-term forecasts.

[28] For details, see: https://tinyurl.com/3thkzey4 and https://tinyurl.com/y6zwxcjf.

Due to the uncertainties associated with this STF decision, the IFI has incorporated its possible effects only in the optimistic scenario. In this case, the risk of non-compliance with the primary expenditure limit in 2027 would be dissipated, although the primary balance for 2023 would be worse than that observed in the baseline and pessimistic scenarios.

These and other issues are analyzed in the following topics.

2.2 Scenarios for the Federal Government's primary expenditure and primary balance

The new projection for the central government's primary deficit in 2023 is BRL 107.9 billion or 1.0% of GDP. The deficit is slightly higher than the BRL 104.7 billion projected by the IFI in May. The main factor is the expected frustration of tax collection, as discussed in the previous section. On the expenditure side, the projection decreased by BRL 10.2 billion compared to the IFI's estimate in May[29].

This scenario is compatible with meeting the BRL 65.9 billion primary deficit target, mainly thanks to the provisos made possible by Constitutional Amendment 126. In the medium term, the risk of not meeting the primary target, considering the new fiscal framework recently approved by the Chamber of Deputies, is high due to the need to increase primary revenues in order to meet the targets for the coming years. For the expenditure ceiling, the greatest possibility of non-compliance with the rule occurs from 2027 onwards, due to the trajectory of expenditure on judicial sentences and court-order debts, in view of the end of the special postponement regime instituted by Constitutional Amendments 113 and 114.

Regarding the special system for postponing the payment of court-order debts, the Counsel for the Federal Government (AGU) filed a statement at the Federal Supreme Court (STF) through the Direct Actions for the Declaration of Unconstitutionality (ADI) No. 7.047-DF and 7.064-DF[30], requesting the unconstitutionality of certain parts of the Constitutional Amendment on court-ordered payment orders. If the AGU's request is accepted, the liabilities issued and not paid could be settled by means of extraordinary credits to be paid in 2023, being excluded from the fiscal targets for the coming years and with payments following the general regime.

Due to the uncertainties associated with this STF decision, the IFI has incorporated its possible effects only in the optimistic scenario. In this case, the risk of non-compliance with the primary expenditure limit in 2027 would be dissipated, although the primary balance for 2023 would be worse than that observed in the baseline and pessimistic scenarios.

These and other issues are analyzed in the following topics.

2.2.1 New projections for primary expenditure

In the baseline scenario, primary expenditure should reach BRL 1,982.2 billion or 18.5% of GDP in 2023 (Graph 8). To draw up the new scenarios, we used the actual figures up to September 2023, published by the National Treasury Secretariat (STN) in its latest monthly bulletin[31]. The increase in the expenditure projection compared to the 18.2% of GDP reached in 2022 is due to the expected increase in expenditure as a result of Constitutional Amendment (EC) No. 126 of 2022 (also known as Transition EC).

In the baseline scenario, expenditure is expected to reach 17.0% of GDP by 2033. In the alternative scenarios, primary expenditure varies basically according to macroeconomic parameters, such as inflation and GDP, and the decisions related to the special regime for postponing the payment of court-ordered debt.

This topic will analyze the main factors behind the new projections for the central government's primary expenditure.

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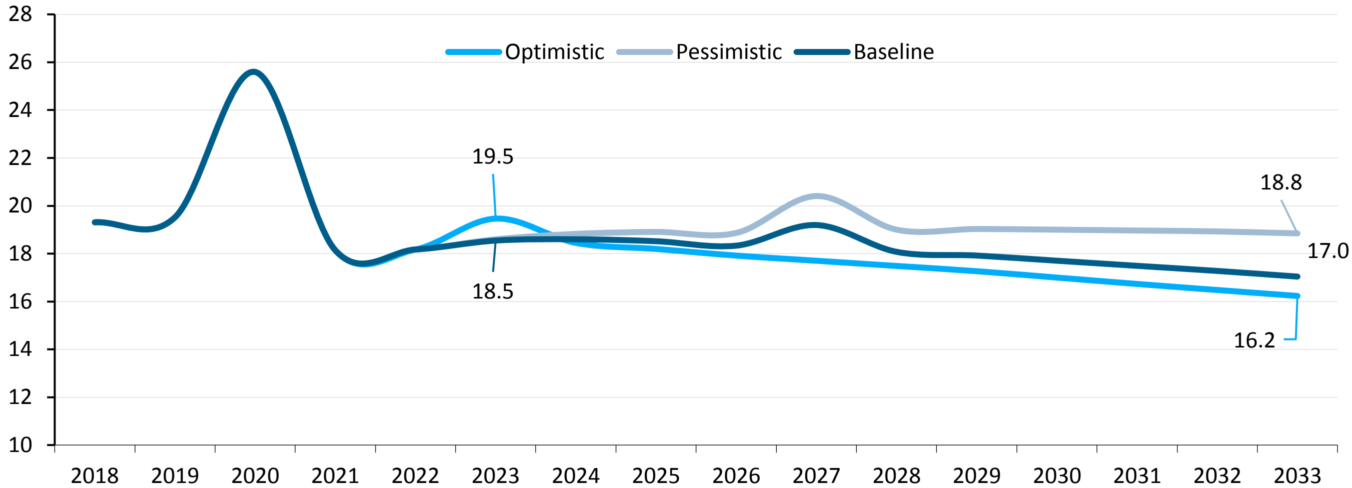
[29] As mentioned above, the comparison is based on the May scenario, since that was the last period with medium-term forecasts.

[30] For details, see: https://tinyurl.com/3thkzey4 and https://tinyurl.com/y6zwxcjf.

[31] The National Treasury Report (RTN) is published monthly and provides information on the "above-the-line" primary balance, i.e. the result of the difference between the central government's non-financial income and expenditure. Up to the date of preparation and publication of this report (RAF), the RTN presented information up to the month of September. The RTN release schedule for 2023 can be accessed at: https://tinyurl.com/yk8365zu.

GRAPH 8. PRIMARY EXPENDITURE - IFI SCENARIOS (% OF GDP)



Source: National Treasury Secretariat and IFI.

The new expenditure projection for 2023 indicates a nominal drop of 0.5% compared to May. As a percentage of GDP, there is a drop of 0.4 p.p., a revision explained mainly by the change in the projection for discretionary spending (-10.3% compared to May). Table 8 compares the IFI's baseline scenario for primary expenditure in 2022 with: a) the actual data for 2022; b) the Executive's most recent projections; and c) the IFI's projections in the May scenario. Some of the most significant changes in the period are discussed below.

TABLE 8. NOV/23 *VERSUS* MAY/23 PROJECTIONS FOR CENTRAL GOVERNMENT PRIMARY EXPENDITURE IN 2023 - BASELINE SCENARIO (BRL BILLION AND % CHANGE)

Breakdown	Actual Expenditure in 2022	Projections for 2023			Comparison					
		Executive	IFI		IFI (Nov/23) *vs* Actual Expenditure 2022		IFI (Nov/23) *vs* Executive (Sep/23)		IFI (Nov/23) *vs* IFI (May/23)	
		Sep/23	May/23	Nov/23	var.	-var. %	-var.	-var. %	-var.	var. %-
Primary Expenditure	**1,802.0**	**2,056.0**	**1,992.4**	**1,982.2**	**180.2**	**10.0**	**-73.8**	**-3.6**	**-10.2**	**-0.5**
Mandatory	**1,649.9**	**1,861.4**	**1,823.6**	**1,830.8**	**180.9**	**11.0**	**-30.6**	**-1.6**	**7.2**	**0.4**
Social Security	797.0	869.7	870.9	872.2	75.2	9.4	2.4	0.3	1.3	0.1
Payroll	337.9	358.8	354.2	349.8	11.9	3.5	-9.0	-2.5	-4.4	-1.2
Allowances and unemployment benefits	64.3	72.9	72.6	72.6	8.3	13.0	-0.3	-0.4	0.0	0.0
BPC	78.8	93.8	86.6	87.2	8.4	10.6	-6.6	-7.0	0.6	0.7
Bolsa Família [Family Allowance] and *Auxílio Brasil* [Brazil Aid] programs	88.1	169.5	170.5	167.3	79.2	89.8	-2.2	-1.3	-3.2	-1.9
Court-ordered debt payments (cost and capital)	17.3	24.9	25.5	18.4	1.0	5.8	-6.6	-26.4	-7.1	-28.0
Fundeb supplementation	32.9	38.4	39.4	37.5	4.6	14.0	-0.9	-2.4	-1.9	-4.9
Subsidies and grants	15.3	22.3	15.8	21.1	5.8	37.9	-1.2	-5.2	5.3	33.3
Legislative. Judiciary. MPU and DPU	15.0	20.4	16.6	15.8	0.8	5.3	-4.6	-22.7	-0.8	-4.7
Payroll exemption	3.1	0.0	0.0	0.0	-3.1	-100.0	0.0	-	0.0	-
Extraordinary credits	47.0	5.4	4.8	2.0	-45.0	-95.7	-3.4	-62.8	-2.7	-57.5
Other mandatory	153.1	185.2	166.7	187.0	33.9	22.1	1.8	0.9	20.3	12.2
Executive discretionary	**152.1**	**194.6**	**168.8**	**151.4**	**-0.8**	**-0.5**	**-43.2**	**-22.2**	**-17.4**	**-10.3**

Source: STN, Evaluation reports on primary income and expenditure and IFI. Prepared by: IFI.

The projection for RGPS spending has been revised upwards by incorporating the execution up to September 2023 and updating macroeconomic parameters. Excluding spending on court decisions and court-ordered debt payments, the nominal growth in social security spending from January to September was 9.7% compared to the same period in 2022. This percentage for the growth of social security spending up to the third quarter (excluding court-ordered debts) is the same as that projected by the IFI in the baseline scenario for 2023. When judicial sentences and court-ordered payments to the General Social Security System (RGPS) are incorporated - which, it must be said, are limited by the Constitutional Amendments 113 and 114 - the projected nominal growth in the May revision was 9.3%, and now the projection indicates growth of 9.4% in 2023. As a result, the projection for RGPS spending went from BRL 870.9 billion to BRL 872.2 billion, compared to the BRL 869.7 billion estimated by the Executive in the last bimonthly assessment[32]. In relation to 2022, BRL 872.2 billion would represent a nominal growth of 9.4%, which reflects the effect of inflation and the readjustment of the minimum wage on the projection for this item of expenditure.

The projection for spending on payroll and social charges fell between the last two revisions. From January to September, the nominal growth in payroll expenses, excluding court judgments and court-ordered payments, was 4.6%. This result reflects the salary adjustments granted to federal civil servants throughout 2023. In this revision, the dynamics observed in the third quarter were used to project the result for the year. Adding in the costs of sentences and court-ordered payments, payroll spending would rise from BRL 337.9 billion in 2022 to BRL 349.8 billion in 2023, an increase of 3.5%. The IFI's estimate is lower than the BRL 358.8 billion forecast by the government in September.

In line with the revision of the RGPS, spending on the Continuous Cash Benefit (BPC) also showed a slight increase in the projection for 2023. According to IFI's projections, in 2023, the increase in expenditure on the BPC, excluding judicial sentences and court-ordered payments, would be 10.8% and spending would reach BRL 84.8 billion. By incorporating judicial sentences and court-ordered payments into the projection, the estimate for 2023 reaches BRL 87.2 billion, up from the BRL 86.6 billion estimated in May 2023. The Executive's current projection is slightly higher, at BRL 93.8 billion.

Expenditure on the Bolsa Família program is expected to be BRL 167.3 billion, reflecting the combined impact of regular, extraordinary, and additional benefits. From January to September, spending on the Bolsa Família Program (PBF) was BRL 124.2 billion. According to data from the Ministry of Citizenship, in October an average of BRL 688.97 was paid out per family, totaling BRL 14.7 billion in monthly spending on the program. The IFI's projections assume that this figure will remain unchanged for the rest of the year, i.e. with no significant changes in the number of families benefiting or the average monthly amount.

The IFI's scenario for May already predicted higher future PBF spending than that observed in 2022. In the fiscal context, the major discussion that arises in relation to the increase in primary expenditure made possible by Constitutional Amendment No. 126 concerns the transformation of a temporary expense into a permanent one without any sign of compensation, either by reducing another expense or by increasing some revenue. The Bolsa Família Program was one of the expenditure items that was increased in 2023 without the respective source of funding being indicated. In view of this scenario, the IFI now considers these expenses not only for 2023 but also for the following years. Discussions about the sources of funds were initiated in 2023 by the executive branch, but there are still uncertainties about the implementation of the strategy advocated by the government.

[32] Available at: https://tinyurl.com/y4u5r74m.

In the medium term, the IFI expects primary expenditure to remain relatively stable as a proportion of GDP for a few years and then gradually fall until it reaches 17% of GDP in 2033, in the baseline scenario. The Sustainable Fiscal Regime stipulates that primary expenditure may grow annually at a real rate ranging from 0.6% (floor) to 2.5% (ceiling). In addition, this range for the growth of primary expenditure is linked to the performance of primary revenue and compliance with primary balance targets. The primary balance targets must be compatible with the stability of the debt-GDP ratio, so in the IFI scenarios, we considered the targets defined in the Federal Government's Budget Guidelines Bill (PLDO 2024) until 2026. For the following years, the primary balance targets were calculated by combining the real interest rate and economic growth data from the IFI's baseline, pessimistic and optimistic scenarios, so as to keep the debt-GDP ratio stable at the same level as in 2023. In this context and considering the evolution of the Federal Government's various primary expenditures, we arrive at this trajectory for the IFI's baseline scenario.

The solution found by the AGU for judicial sentences and court-ordered payments could ease the pressure in the medium term, with the counterpart of a worsening primary balance in the short term. The Office of the General Counsel for the Federal Government (AGU) filed a statement at the Supreme Court (STF) ADI No. 7.047-DF and ADI No. 7.064-DF[33], requesting the declaration of unconstitutionality of some parts of ECs [Constitutional Amendment] 113 and 114 of 2021.

In RAF No. 64 of May 2022[34], the IFI explored this issue. Constitutional Amendments 113 and 114 relieved the pressure on the Federal Government's expenditure on judicial sentences and court-ordered debt payments by creating a ceiling for this expenditure. As these amendments are in force until the end of 2026, there were uncertainties regarding the system that would be in force from 2027. According to the IFI's understanding, the writs of payment issued and not paid during the term of Constitutional Decrees 113 and 114 must be paid in the following year, i.e. 2027. This would create pressure on the 2027 budget as well as on fiscal rules, as opposed to the short-term spending relief, i.e. until 2026.

The AGU believes that some of the provisions of these constitutional amendments are unconstitutional and that the limit on the cost of court-order debt is therefore inappropriate. If this understanding prevails, unpaid court-ordered payment warrants will have to be paid off in the short term. Thus, in the request sent to the STF, the AGU asks for the possibility of paying this liability through extraordinary credits.

It is worth highlighting an excerpt from the AGU's note on the subject:

> "In this context, the STN and PGFN consider it equally relevant to authorize the opening of extraordinary credits (art. 67, § 3, of the Constitution) to settle existing liabilities, <u>with the exclusion of this expense from the limits established by the</u> recently enacted <u>Complementary Law no. 200</u>, of August 30, 2023, <u>and the</u> consequences <u>on the established targets</u>, given the exceptional nature of the event in question."
>
> (AGU, 2023. Emphasis added)

Thus, if the AGU's request is accepted, the debts issued and not paid could be settled by means of extraordinary credits to be paid in the 2023 financial year, being excepted from the fiscal targets and, for the following years, the payments would follow the general regime.

Given the uncertainties associated with this decision, the IFI has only incorporated these effects into the optimistic scenario. In this case, the risk of breaching the primary expenditure limit in 2027 would be dissipated, but the primary balance for 2023 would consequently be worse than that observed in the baseline and pessimistic scenarios.

Tax reform creates additional pressure on the Federal Government's primary expenditure. The substitute text to Constitutional Amendment Bill (PEC) No. 45 of 2019, approved by the Federal Senate on November 8[35], directly establishes two new constitutional funds and authorizes the creation, by means of a complementary law, of two other funds, financed with Federal Government resources.

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[33] For details, see: https://tinyurl.com/3thkzey4 and https://tinyurl.com/y6zwxcjf.

[34] Available at: https://tinyurl.com/r4uu9xdr.

[35] To follow the bicameral process, see: https://tinyurl.com/2rxyw5ae. For direct access to the substitute bill approved by the Federal Senate and sent to the Chamber of Deputies, see: https://tinyurl.com/ysfxnpyh.

Among the funds authorized by PEC 45 of 2019 are the Fund for Sustainability and Economic Diversification of the State of Amazonas and the Fund for Sustainable Development of the States of Western Amazonia and Amapá.

In practice, the Fund for the States of Western Amazonia and Amapá, conceived in the Federal Senate, mirrors the main characteristics of the Fund for the State of Amazonas, which were already present in the version approved by the Chamber of Deputies. The general purpose is to maintain the differentiated treatment of customs regimes applied in special areas of the Manaus Free Trade Zone (ZFM) and the Free Trade Areas (ALC) of the Western Amazon and Amapá.

Currently, in addition to the ZFM, the following areas are regulated in Amazonas: ALC of Tabatinga, in Amazonas; ALC of Guajará-Mirim, in Rondônia; ALC of Macapá and Santana, in Amapá; ALC of Brasiléia/Epitaciolândia and Cruzeiro do Sul, in Acre; and ALC of Boa Vista and Bonfim, in Roraima[36].

In common, the laws governing these funds will have to establish the minimum amount of annual contributions, as well as the criteria for their correction, and provide for the possibility of using the funds' resources to compensate for any loss of revenue for the beneficiary states as a result of changes to the tax system resulting from the introduction of the Contribution on Goods and Services (CBS) and the Tax on Goods and Services (IBS).

In addition, the Federal Government, upon prior agreement with the benefiting states, may reduce the scope of the fiscal, economic or financial instruments that guarantee favorable treatment for operations in the aforementioned areas, provided that additional resources are contributed to the funds, ensuring the diversification of economic activities and at least three years' notice.

The idea behind the creation of these funds is to gradually replace the current model of concentrating tax benefits in free trade areas with a model of economic diversification, in order to exploit the competitive advantages of the various economic activities carried out in each location.

Given that the tax reform left it up to a complementary law to define the amounts and how to update the resources to be allocated to these regions, it is not possible to immediately assess the fiscal impact caused by the funds in question.

On the other hand, the text of PEC No. 45, of 2019, in establishing the National Fund for Regional Development (FNDR) and the Fund for Compensation of Tax or Financial-Fiscal Benefits, presented deadlines, values and a way of updating the amount, which can be measured economically.

The Compensation Fund for Tax or Financial-Fiscal Benefits aims to compensate, between January 1, 2029, and December 31, 2032, individuals or legal entities benefiting from exemptions, incentives and tax or financial-fiscal benefits related to the ICMS, granted for a certain period and under specific conditions.

Every year between 2025 and 2032, the federal government will have to contribute funds, which will be updated by the Extended National Consumer Price Index (IPCA) from 2023 until the year before the amounts are paid into the fund. In nominal values, the Federal Government's contributions will start at BRL 8 billion in 2025, increasing by BRL 8 billion a year until 2028, when they will total BRL 32 billion. This figure is repeated in 2029, decreasing by BRL 8 billion per year between 2030 and 2032.

If the amount is not enough to pay the calculated benefits, the Federal Government will have to cover them. On the other hand, in the event of a surplus, the resources will have to be transferred to the FNDR, so that the total amount will be at least the amount provided for in the tax reform text.

It is therefore a temporary fund that absorbs, on behalf of the Federal Government, the tax incentives granted unilaterally by the states in the context of the so-called "fiscal war", which were later validated until 2032 by complementary laws No. 160 of 2017 and No. 186 of 2021, in order to avoid possible legal challenges by the current beneficiaries.

[36] For more details, see:https://tinyurl.com/29v8nse7 .

The FNDR, on the other hand, was created with the aim of reducing regional and social inequalities by providing federal funds to the states and the Federal District to carry out studies, projects and infrastructure improvements; promoting productive activities with a high potential for generating employment and income, including the granting of economic and financial subsidies; and promoting scientific, technological and innovation development actions.

It will be up to the states and the Federal District to decide how to use the FNDR's resources, but the amendment stipulates that the entities must prioritize projects that include environmental sustainability actions and a reduction in carbon emissions.

In nominal values, the Federal Government's contributions will start at BRL 8 billion in 2029, growing by BRL 8 billion a year until 2033, when they will total BRL 40 billion. Between 2034 and 2043, the contributions will increase by BRL 2 billion a year, until they reach BRL 60 billion in 2043, repeating this amount every year for an indefinite period.

It is therefore a permanent fund that makes the Federal Government absorb the compensation to the states for the ban on creating new tax incentives.

The IFI's scenarios, from optimistic to pessimistic, incorporate the effects of the FNDR funds and the tax relief compensation fund. The funds authorized in the PEC, but not detailed, have not yet been incorporated into the scenarios and will be analyzed by the IFI only when they are regulated.

2.2.2 Sustainable Fiscal Regime

Primary expenditure should be cut in the first year of the New Fiscal Framework. When monitoring the adherence of fiscal indicators to the constitutional limit for primary expenditure, the IFI uses a measure of non-compliance risk based on the amount allocated to discretionary expenditure. As these expenses are the main adjustment variable in the short term, the IFI monitors the compatibility of discretionary spending with the compliance of fiscal rules and, at the same time, the possibility of maintaining public services.

Although difficult to measure, the IFI calculates the minimum level of discretionary spending below which the functioning of the public machine would be jeopardized. But the uncertainty today is not restricted to the possibility of complying with the current rules. It is in this context that the new scenarios for the Sustainable Fiscal Regime (RFS), established by Complementary Law (LC) No. 200 of 2023, are analyzed.

The federal discretionary expense is forecast at BRL 211.9 billion (1.9% of GDP) in the 2024 PLOA. According to paragraph 2 of article 7 of LC 200 of 2023, the minimum level of discretionary spending will be 75% of the amount authorized in the respective LOA, which is BRL 158.9 billion (1.4% of GDP). Also according to LC 200, discretionary expenses can only be reduced up to the minimum provided for in paragraph 2 of art. 7, and the lower and upper limits of the New Fiscal Framework for the total growth of primary expenditure subject to the rule must also be respected.

As a result, the maximum limit that can be set aside over the course of the year will be BRL 53 billion. There are many uncertainties in relation to some primary revenues, so if the frustration occurs on this side, the government spending cuts could be lower due to the minimum and maximum limits of the RFS. However, if the need for spending cuts arises from a reassessment of mandatory expenditure, this additional restriction will not apply for budgetary constraints purposes.

Despite the short-term imbroglio and the doubts related to the effective functioning of the new RFS, the IFI believes that the biggest challenges to fully complying with the RFS are centered specially on primary revenues. The frustration expected for primary revenues should dictate the pace and amount of the cuts to be made throughout 2024.

2.2.3 Primary balance

In the baseline scenario, the IFI projects a primary deficit of BRL 107.9 billion, or 1.0% of GDP, in 2023 (Table 9). The primary balance goes from a surplus of BRL 54.1 billion in 2022 to a high deficit in 2023. The worsening of the balance is due to the fall in revenue and the increase in primary expenditure made possible by EC No. 126 of 2022 (Transition EC), as analyzed in the previous subsections. The government's current projection for the primary deficit is higher, at BRL 141.4 billion.

TABLE 9. CENTRAL GOVERNMENT PRIMARY BALANCE - BASELINE SCENARIO (BRL BILLION)

Breakdown	2022 (Actual)		2023 (IFI Projection)		Difference	
	BRL bi	% PIB	BRL bi	% PIB	BRL bi	% PIB
Total revenue	2,313.3	23.3	2,346.8	22.0	33.5	-1.4
Transfers to States and Municipalities	457.2	4.6	472.5	4.4	15.3	-0.2
Net Revenue	1,856.1	18.7	1,874.3	17.5	18.2	-1.2
Primary Expenditure	1,802.0	18.2	1,982.2	18.5	180.2	0.4
Mandatory	1,649.9	16.6	1,830.8	17.1	180.9	0.5
Discretionary (Executive)	152.1	1.5	151.4	1.4	-0.8	-0.1
Primary balance	**54.1**	**0.5**	**-107.9**	**-1.0**	**-162.0**	**-1.6**
Primary target	**-170.5**		**-65.9**		**104.6**	

Source: STN and IFI. Prepared by the IFI.

In the baseline scenario, the primary balance would return to a surplus in 2032 (Graph 9). Current projections up to 2033 show a similar trajectory to that of May. Some distinctions, however, are relevant. In the May scenario, the evolution of the primary balance was gradual, reaching positive territory in 2031 and remaining in surplus until the end of the projection horizon. In the new scenario, the primary balance improves slightly, peaking in 2027 due to the expiration of the Constitutional Amendments on court-order payments of government debt, until it reaches a deficit of zero in 2032.

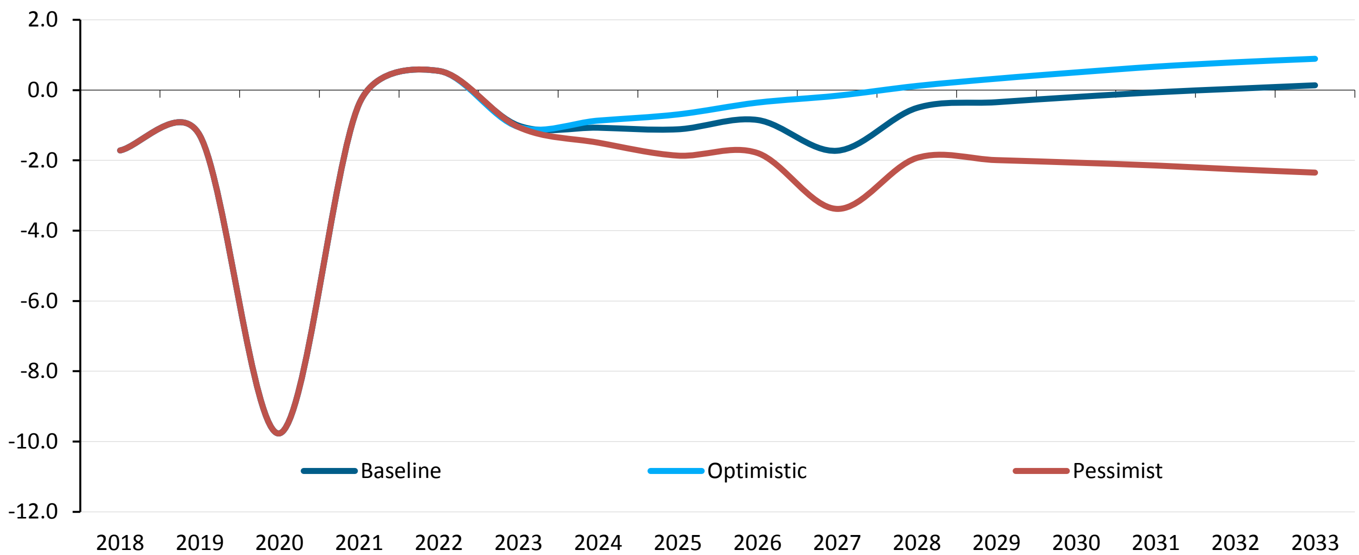
The optimistic and pessimistic scenarios take into account the negative and positive risks that affect the forecast trajectory for the main macroeconomic parameters. Tables 14, 15 and 16, at the end of the report, detail the IFI's projections for the central government's primary balance in the baseline scenario and the two alternative scenarios.

In the optimistic scenario, the projection is for a primary deficit of 0.9% of GDP in 2024, compared to a deficit of 1.1% in the baseline scenario (Graph 9). As for the period from 2025 to 2033, projected net revenues should average 17.5% of GDP, up from the 17.4% of GDP projected in the current baseline scenario for the same period. Expenditure, on the other hand, averages 17.2% of GDP, lower than the baseline scenario average of 18.0% of GDP. So, after a deficit of 0.4% in 2021 and a surplus of 0.5% in 2022, the projection for the primary balance varies, in the optimistic scenario, from a deficit of 1.9% of GDP in 2023, due to the AGU's proposal for judicial sentences and court-ordered payments, to a surplus of 0.9% of GDP in 2033.

The primary deficit estimated in the pessimistic scenario will reach BRL 168.7 billion or 1.5% of GDP in 2024. For the period from 2025 to 2033, net revenues are estimated at 16.9% of GDP, the annual average, about 0.5 p.p. below those estimated in the baseline scenario. On the expenditure side, the projected annual average for the period is 19.1% of GDP, higher than the baseline scenario average by 1.2 p.p. of GDP. Unlike the other two scenarios, in the pessimistic one, the primary balance never turns positive and the deficit grows again at the end of the forecast period.

Graph 9 compares the central government's primary balance curves in the three current scenarios: baseline, optimistic and pessimistic, as a percentage of GDP.

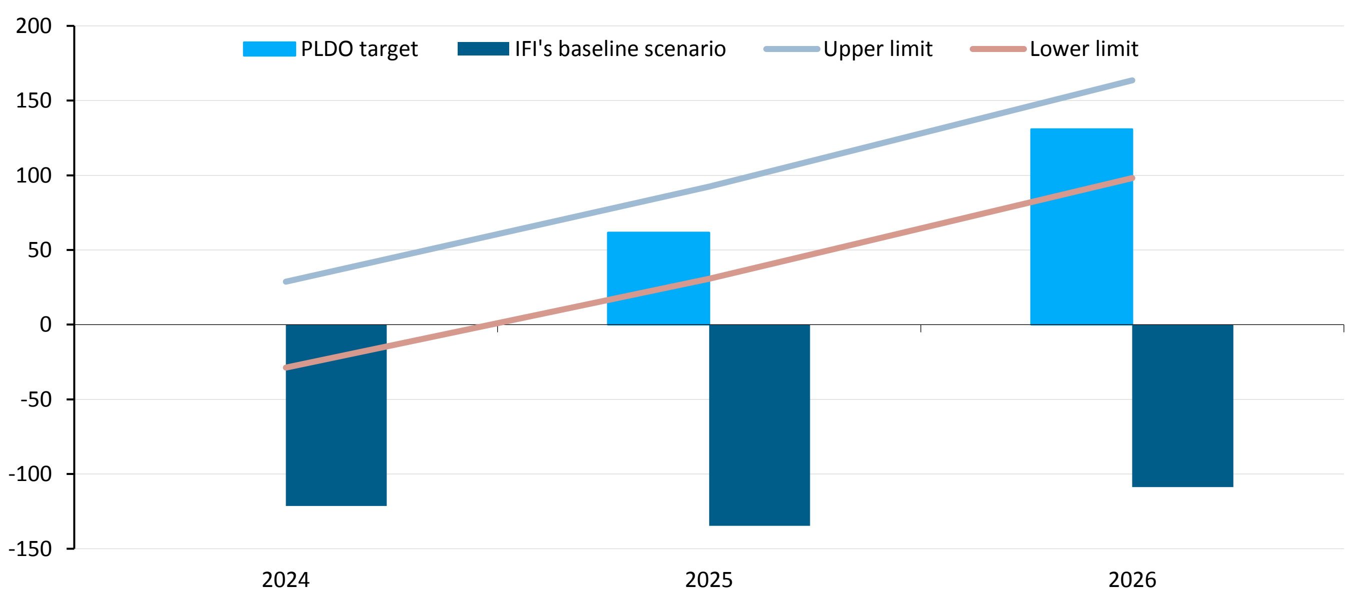
GRAPH 9. IFI'S SCENARIOS FOR THE UNION'S PRIMARY BALANCE (% OF GDP)



Source: National Treasury Secretariat and IFI.
Prepared by: IFI.

The fiscal targets for the next three-year period (2024-2026), contained in the 2024 PLDO, consider a deficit of BRL 0.0 billion for 2024 and surpluses of BRL 61.6 billion and BRL 130.8 for 2025 and 2026, respectively. Comparing the primary balance targets for the time horizon of the PLDO 2024 with the IFI's baseline scenario, it can be seen that, for the entire comparison horizon, the primary balance projected by the IFI should not reach the stipulated fiscal target. This result demonstrates the risk of not meeting the primary target, since its amount should be below the fiscal target established in the PLDO. The graph below summarizes these differences.

GRAPH 10. PRIMARY BALANCE TARGET AND IFI'S SCENARIO (R$ BILLION)



Source: Budget Guidelines Bill and IFI. Prepared by: IFI.

3. PUBLIC DEBT SCENARIOS

According to the Central Bank, the DBGG [General Government Gross Debt] reached 74.4% of GDP in September 2023, an increase of 1.5 p.p. compared to December 2022. The increase in the indicator this year is mainly due to the lower influence of GDP growth on debt. According to the factors conditioning the gross debt, published by the Central Bank, in 12 months, the contribution of GDP to the debt/GDP ratio was 6.3 p.p. in September, compared to 8.0 p.p. in December 2022. At the same time, interest expenditure remained at more or less the same level (+7.9 p.p. in September, against +7.8 p.p. in December).

These lower nominal GDP contributions to the fall or even stability of the debt/GDP ratio should continue in the coming months due to the expectation of lower economic growth in 2024. Although interest expenses will still put pressure on the debt this year, the trend is for the variable to fall from next year onwards, as the reduction in the basic interest rates of the economy continues. Selic is one of the main indexes of public debt. The prospect of primary deficits in the public sector over the next few years will increase gross indebtedness.

The scenarios outlined by the IFI for the evolution of the gross debt over the next few years take into account the New Fiscal Framework (NAF). The simulations carried out indicate that, even with the new fiscal rule in force, which will limit the growth of the central government's primary expenditure to percentages of the variation in net revenue, the stabilization of the public debt would only be achieved with an increase in revenues (as a proportion of GDP), a situation in which the government would be able to achieve the fiscal targets announced for the period from 2023 to 2026.

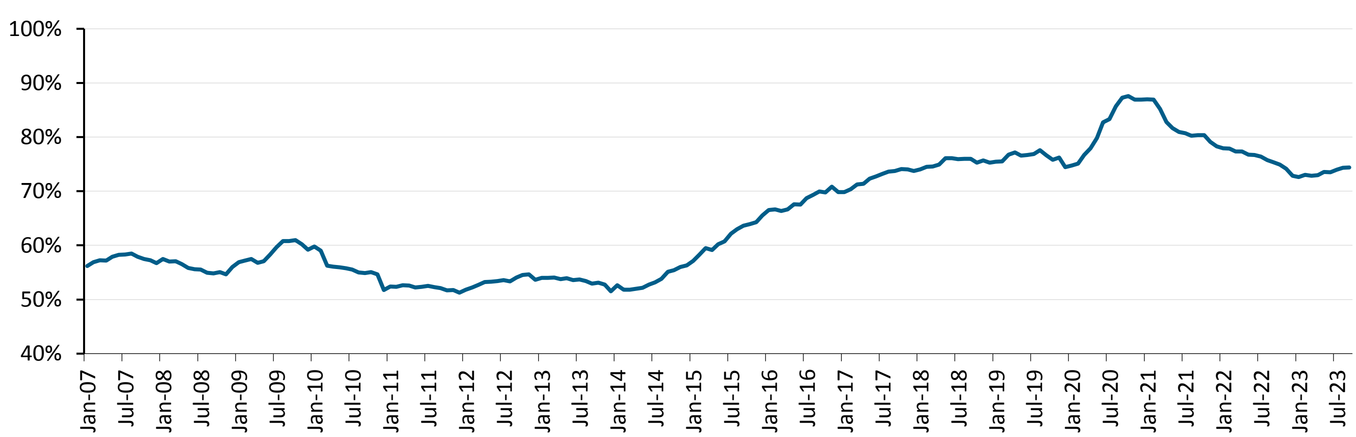
The ongoing recomposition of various primary expenses will increase the challenge of meeting the central government's primary balance targets. The projections calculated by the IFI for gross debt, given the macroeconomic and fiscal scenarios discussed above, indicate an increase in the indicator throughout the projection horizon (2023-2033) in the baseline scenario.

Of course, this debt trajectory could change if the government manages to raise the recurring revenue considered when calculating the primary expenditure limits. The scenarios indicate that possible revenue frustrations will not only make it difficult to meet fiscal targets but will also jeopardize the credibility of fiscal policy.

3.1 Recent developments in interest and debt

Graph 11 shows the evolution of the DBGG as a proportion of GDP since January 2007. As of February 2021, gross debt has been on a downward trajectory. In December 2022, the indicator reached 72.9% of GDP and has risen marginally since then. What has limited the increase in debt as a proportion of GDP is the growth in nominal GDP, even though contributions are falling, as mentioned above. By the end of 2023, as will be shown below, the DBGG should rise to 75.1% of GDP in the baseline scenario.

GRAPH 11. EVOLUTION OF DBGG AS A PROPORTION OF GDP



Source: Central Bank. Prepared by: IFI.

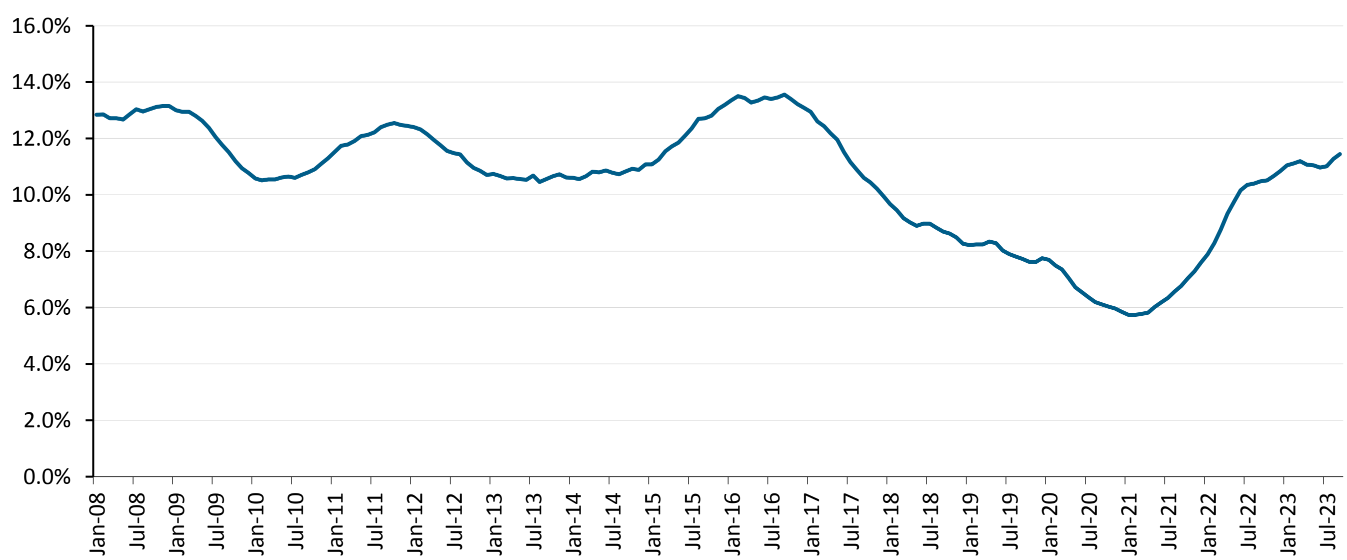
In recent scenario revisions, the IFI has highlighted the effects of nominal GDP growth on reducing the debt/GDP ratio and the temporary nature of the phenomenon, determined by a positive commodity shock that favored tax collection in the months immediately following the most acute phase of the pandemic. The inflation underlying this context, however, required the Central Bank to increase the economy's basic interest rates, which in turn affected the average cost of the debt by making it more expensive for the Treasury to issue new bonds.

The implicit interest rate on the gross debt began to rise from March 2021, when the Central Bank began its last monetary tightening cycle. In the second half of 2022, the pace of increase in the implicit rate slowed due to the cooling of inflation, which was mainly a result of the reductions in PIS/Cofins and ICMS on gasoline and ethanol. In any case, despite the fall in inflation since last year, the fact that the Selic rate remains at relatively high levels continues to influence the cost of issuing new bonds (Graph 12).

In the 12 months to September 2023, according to the Central Bank, the implicit gross debt rate reached 11.4% p.a., up 0.6 p.p. compared to December 2022. In the last three months with available information (July, August, and September), the implicit rate rose again. This movement occurred, despite the start of monetary easing in August, due to a compounding effect on the debt stock (the interest rates on redeemed bonds are lower than those on bonds remaining in the stock). By way of illustration, according to the Treasury, the average cost of public offerings of the Federal Domestic Public Debt (DPMFi) has been falling since April, although the reductions are marginal.

As discussed earlier, the increase in the implicit rate and the effects on the interest bill were partially offset by the sharp rise in nominal GDP, which caused the debt to fall between 2021 and 2022. The slowdown in economic activity and the projected reversal of the public sector's primary balance from this year onwards should affect the dynamics of the gross debt. These effects could be exacerbated by the prospect of deficits materializing in the coming years.

GRAPH 12. DBGG IMPLICIT RATE ACCUMULATED OVER 12 MONTHS (% P.A.)

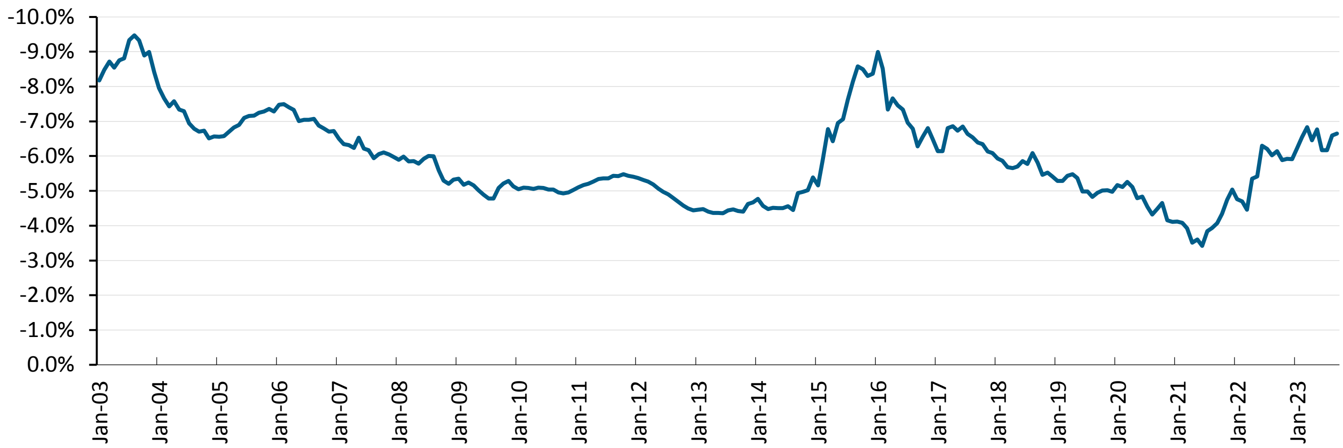


Source: Central Bank. Prepared by: IFI.

In the 12-month comparison, the public sector's net interest payments went from BRL 284.2 billion (3.4% of GDP) in June 2021 to BRL 699.7 billion (6.6% of GDP) in September 2023 (Graph 13). This increase in public sector interest expenditure, in addition to having wiped out part of the gains from the public sector's primary surplus over the last two years, should contribute to worsening the nominal balance in the months ahead.

Table 13, at the end of the section, shows the projections for the consolidated public sector's nominal balance. In other words, in addition to the central government's primary balance, already discussed in the previous section, the trajectories for states, municipalities, state-owned companies and interest payments are considered.

GRAPH 13. NOMINAL INTEREST EXPENSE ACCUMULATED OVER 12 MONTHS (% OF GDP) FOR THE CONSOLIDATED PUBLIC SECTOR



Source: Central Bank. Prepared by: IFI.

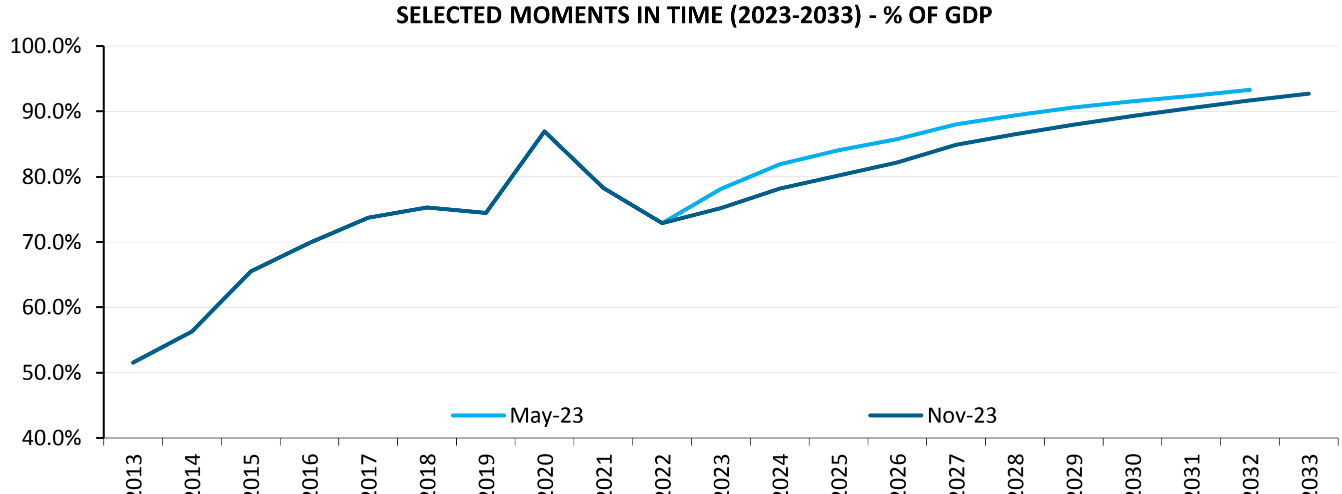
3.2 Projections

In the revised scenarios presented in May 2023, the IFI projected gross debt at 78.1% of GDP in 2023. The projection for this indicator is now 75.2% of GDP at the end of the year. Contributing to this revision was the higher growth expected for nominal GDP this year, from 6.4% in May 2023 to 7.8% now (Graph 14).

The projected increase in the DBGG as a proportion of GDP from 2023 onwards is largely explained by the reversal of the public sector's primary surplus to a deficit in that year. In 2023 and 2024, the IFI projects public sector primary deficits of 1.0% of GDP and 1.2% of GDP respectively. Over the projection horizon (2023-2033), the projected primary deficits for the consolidated public sector are due to the estimated growth in revenues being lower than the actual growth in the last two years, in addition to the projected increase in primary expenditure.

While primary deficits are projected for the coming years, in the medium term (2025-2033), nominal GDP is expected to grow by an average of 5.8% a year, lower than the variations recorded in 2021 (16.9%) and 2022 (11.4%). The economy's real growth should converge to around 2.0% per year, which is lower than in 2021 (5.0%) and 2022 (2.9%).

GRAPH 14. IFI PROJECTIONS FOR THE GENERAL GOVERNMENT GROSS DEBT (GGGD) AT SELECTED MOMENTS IN TIME (2023-2033) - % OF GDP



Source: Central Bank. Prepared by: IFI.

It is also necessary to consider for the debt dynamics in the coming years the introduction of a limit on court-ordered payments of government debt in the Constitution in 2021, which eased budget execution in the short term, reducing the Federal Government's primary expenditure and, consequently, favoring the central government's primary balance until 2026. The constitutional rule does not, however, make any provision for court-order debt payments from 2027 onwards. For the debt projections, the IFI considered, in the baseline and pessimistic scenarios, the payment of the accumulated liabilities in full as of 2027, in accordance with the system provided for in Constitutional Amendments 113 and 114. In the optimistic scenario, we considered the proposal sent by the Executive to the Federal Supreme Court (STF), to pay the current stock of court-order debts through an extraordinary credit opened in 2023.

The return of court-ordered debt payments in 2027 influences the DBGG trajectory from that year onwards, generating a 2.7 p.p. jump in the DBGG in the baseline scenario, which will rise from 82.1% of GDP in 2026 to 84.8% of GDP in 2027. In the optimistic scenario, the biggest jump in debt would occur from 2023 to 2024, of 2.0 p.p. of GDP, when gross debt would increase from 75.9% of GDP to 78.0% of GDP. In the pessimistic scenario, the IFI estimates the DBGG at 75.5% of GDP in 2023.

In addition to the issue of court-ordered payments of government debts, the IFI maintained, in the baseline and optimistic scenarios, the full return of the financial resources raised by the BNDES from the National Treasury in 2023[37]. In the pessimistic scenario, the IFI considered repaying the remaining balance in installments between 2023 and 2030. The reason for including the installment payment of the BNDES' debit balance with the Treasury only in the pessimistic scenario is since the TCU's technical area is against postponing this payment. In any case, the matter will have to be heard by the full Federal Accounting Court. [38].

Finally, it was necessary to add to the 2023 debt projection the amount of BRL 26.0 billion referring to the balances of unclaimed PIS/PASEP accounts, which were transferred to the Treasury in September. Although the National Treasury Secretariat considers these funds to be primary revenue, which improves the central government's primary balance for the current year, the Central Bank's methodology for calculating the primary balance does not take them into account. Thus, the BRL 26.0 billion in question is neutral from the point of view of the primary balance from the Central Bank's perspective.

Based on the estimates for the entire projection horizon, in the baseline scenario, the DBGG should reach 92.7% of

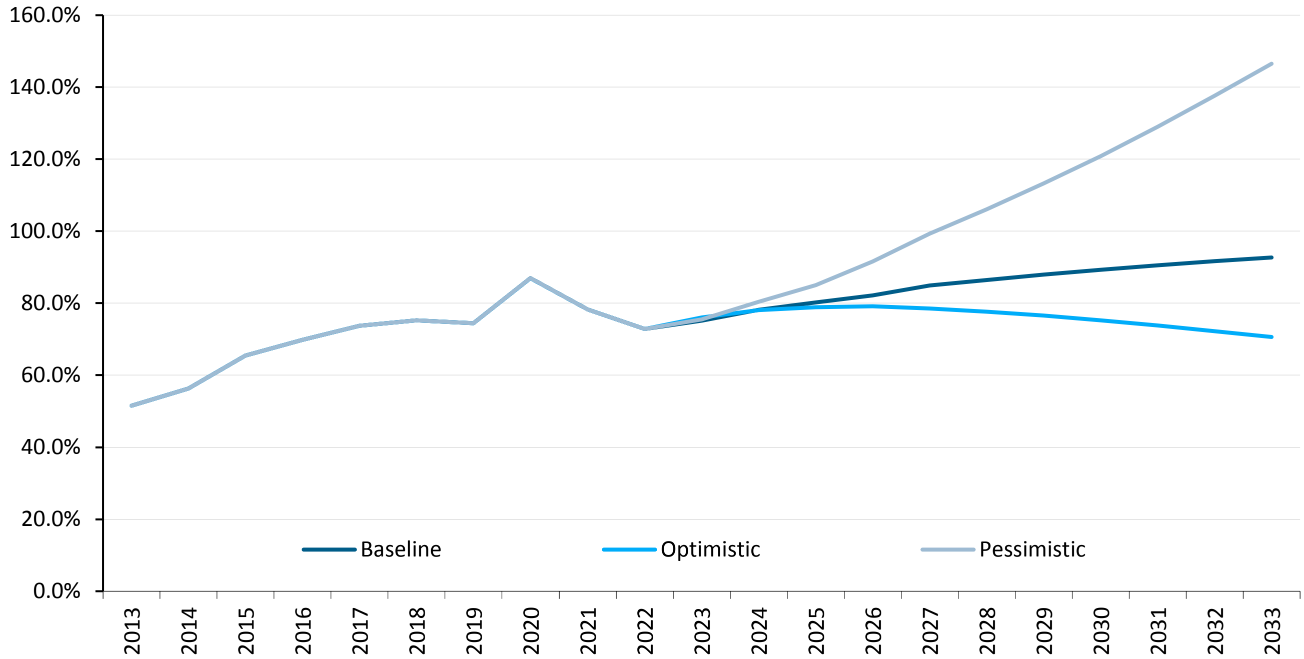
GDP in 2033, while in the optimistic and pessimistic scenarios, the debt would reach 70.6% and 146.5% respectively. On average from 2025 to 2033, the debt would be 87.3% of GDP in the baseline scenario, 75.9% of GDP in the optimistic scenario and 114.4% in the pessimistic one.

Considering the macroeconomic parameters presented in the first section and given the trajectory of the public sector's expected primary results, there will be an increase in the DBGG as a proportion of GDP in the coming years. This increase in debt exposes the challenges of meeting the central government's primary balance targets, which fundamentally depend on an increase in recurring primary revenues. It is important to highlight risks that could jeopardize the projected growth of the economy and any frustrations of the measures intended by the Executive to increase revenue in the coming years. Such events can affect confidence in the sustainability of public accounts in the medium and long term.

Graph 15 consolidates the expected trajectories in the three IFI scenarios.

[37] For more information on these values, see:https://tinyurl.com/mr2r4scm.
[38] See, for example, the following article from the 17/11/2023 edition: https://tinyurl.com/yu4a4dk5.

GRAPH 15. IFI PROJECTIONS FOR DBGG IN THE DIFFERENT SCENARIOS - % OF GDP



Source: Central Bank. Prepared by: IFI.

Table 10 shows the average values of the main debt assumptions from 2023 to 2033. Table 11, in turn, shows the projections for the DBGG as a percentage of GDP in the IFI's three medium-term scenarios.

TABLE 10. MAIN MACROECONOMIC AND FISCAL ASSUMPTIONS FOR THE DEBT SCENARIOS - AVERAGES FOR 2025 TO 2032 (MAY/23) AND 2025 TO 2033 (NOV/23) IN THE BASELINE SCENARIO

Baseline scenario		
	May/23	Nov/23
Primary balance (BRL billion)	-56.5	-73.7
Primary balance (% of GDP)	-0.4%	-0.6%
Nominal GDP (BRL billion)	14,881	15,233
Real GDP growth (%)	2.0%	2.0%
Implicit real debt rate (% p.a.)	3.9%	3.9%
Gross debt (% of GDP)	**89.3%**	**87.3%**

*** In the May/23 revision, the medium term considered was the period from 2025 to 2032. In Nov/23, the average started to consider the period from 2025 to 2033 as medium-term. Source: IFI.*

TABLE 11. DBGG PROJECTIONS AS % OF GDP UNTIL 2033 - MAY/23 AND CURRENT RAF

Year	Baseline		Optimistic		Pessimistic	
	May/23	Nov/23	May/23	Nov/23	May/23	Nov/23
2017	73.7%	73.7%	73.7%	73.7%	73.7%	73.7%
2018	75.3%	75.3%	75.3%	75.3%	75.3%	75.3%
2019	74.4%	74.4%	74.4%	74.4%	74.4%	74.4%
2020	86.9%	86.9%	86.9%	86.9%	86.9%	86.9%
2021	78.3%	78.3%	78.3%	78.3%	78.3%	78.3%
2022	72.9%	72.9%	72.9%	72.9%	72.9%	72.9%
2023	78.1%	75.2%	77.7%	76.0%	78.6%	75.5%
2024	81.9%	78.2%	80.4%	78.1%	83.0%	80.4%
2025	84.0%	80.2%	80.6%	78.8%	87.5%	85.0%
2026	85.7%	82.2%	79.1%	79.2%	91.4%	91.6%
2027	88,.0%	84.9%	78.4%	78.5%	97.1%	99.4%
2028	89.4%	86.5%	76.8%	77.6%	102.1%	106.1%
2029	90.6%	87.9%	74.8%	76.5%	107.2%	113.3%
2030	91.5%	89.3%	72.4%	75.3%	112.3%	120.9%
2031	92.4%	90.5%	69.6%	73.8%	117.6%	129.0%
2032	93.3%	91.7%	67.1%	72.3%	123.7%	137.6%
2033		92.7%		70.6%		146.5%

Source: IFI.

Table 12 shows an exercise carried out by the IFI to illustrate the primary balance required to stabilize the DBGG as a proportion of GDP at 75.2%, the projection for the indicator, in the baseline scenario, at the end of 2023.

TABLE 12. PRIMARY BALANCE REQUIRED TO STABILIZE GROSS DEBT AT 75.2% OF GDP

DBGG in t		Implicit real interest rates of the DBGG							
75.2%		0.5%	1.0%	2.0%	3.5%	3.9%	4.5%	5.0%	5.5%
Real GDP (%p.a.)	0.5%	0.0%	0.4%	1.1%	2.2%	2.5%	3.0%	3.4%	3.7%
	1.0%	-0.4%	0.0%	0.7%	1.9%	2.2%	2.6%	3.0%	3.3%
	1.5%	-0.7%	-0.4%	0.4%	1.5%	1.8%	2.2%	2.6%	3.0%
	2.0%	-1.1%	-0.7%	0.0%	1.1%	1.4%	1.8%	2.2%	2.6%
	2.5%	-1.5%	-1.1%	-0.4%	0.7%	1.0%	1.5%	1.8%	2.2%
	3.0%	-1.8%	-1.5%	-0.7%	0.4%	0.7%	1.1%	1.5%	1.8%
	3.5%	-2.2%	-1.8%	-1.1%	0.0%	0.3%	0.7%	1.1%	1.5%

Source: Prepared by the IFI.

For example, with an implicit gross debt interest rate of 3.9% p.a. and GDP growth of 2.0% (average projections for the medium term in the baseline scenario), the primary surplus required to stabilize the DBGG at 75.1% of GDP is 1.4% of GDP. Table 12 shows that the higher the interest rate, the greater the primary required to stabilize the debt. On the other hand, higher economic growth reduces the amount of primary balance required for this. Assuming real interest rates of 2.0% p.a. and GDP growth of 3.5%, even a primary deficit of 1.1% of GDP would stabilize the gross debt at the level projected by the IFI for December 2023 (75.1% of GDP).

Finally, Table 13 shows the projections for the primary and nominal results, as well as interest expenditure in the three reference scenarios. The projections indicate the persistence of significant nominal deficits due to relatively high interest expenditure. Only in the optimistic scenario, in which the public sector achieves primary surpluses from 2028 onwards, does the nominal balance assume a downward trend, although still in deficit.

TABLE 13. NOMINAL BALANCE OF THE CONSOLIDATED PUBLIC SECTOR (% OF GDP)

Year	Baseline			Optimistic			Pessimistic		
	Nominal balance	Primary balance	Interest	Nominal balance	Primary balance	Interest	Nominal balance	Primary balance	Interest
2018	-7.0%	-1.5%	5.4%	-7.0%	-1.5%	5.4%	-7.0%	-1.5%	5.4%
2019	-5.8%	-0.8%	5.0%	-5.8%	-0.8%	5.0%	-5.8%	-0.8%	5.0%
2020	-13.3%	-9.2%	4.1%	-13.3%	-9.2%	4.1%	-13.3%	-9.2%	4.1%
2021	-4.3%	0.7%	5.0%	-4.3%	0.7%	5.0%	-4.3%	0.7%	5.0%
2022	-4.6%	1.3%	5.9%	-4.6%	1.3%	5.9%	-4.6%	1.3%	5.9%
2023	-8.1%	-1.2%	6.9%	-9.1%	-2.1%	6.9%	-8.2%	-1.3%	6.9%
2024	-7.4%	-1.2%	6.2%	-6.9%	-0.9%	6.0%	-9.0%	-1.8%	7.2%
2025	-6.9%	-1.2%	5.7%	-6.1%	-0.7%	5.4%	-9.9%	-2.2%	7.7%
2026	-6.4%	-1.0%	5.4%	-5.4%	-0.4%	5.0%	-11.7%	-2.1%	9.6%
2027	-6.8%	-1.7%	5.1%	-4.1%	0.0%	4.1%	-12.8%	-3.5%	9.3%
2028	-5.6%	-0.5%	5.0%	-3.6%	0.2%	3.8%	-12.0%	-2.2%	9.8%
2029	-5.3%	-0.4%	4.9%	-3.2%	0.4%	3.6%	-12.6%	-2.2%	10.3%
2030	-5.1%	-0.2%	4.9%	-2.8%	0.6%	3.4%	-13.2%	-2.3%	10.9%
2031	-5.0%	-0.1%	4.9%	-2.5%	0.7%	3.3%	-14.1%	-2.4%	11.7%
2032	-4.9%	0.0%	4.9%	-2.2%	0.9%	3.1%	-14.9%	-2.5%	12.4%
2033	-4.8%	0.1%	4.9%	-2.0%	1.0%	3.0%	-15.8%	-2.6%	13.3%

Source: IFI.

3.2.1 Stochastic debt scenarios

The probability of DBGG exceeding 90% of GDP by 2028 was estimated at 38.7%. In this edition of the RAF, the DBGG *fan chart* has been updated. The *fan chart* complements the deterministic baseline scenario and is generated from 1,500 stochastic scenarios[39] for debt. Given the assumptions contained in the baseline scenario, the probability of the DBGG crossing the 90% of GDP threshold in some year between 2024 and 2028 was estimated at 38.7% (Graph 16).

As the year 2023 is nearing its end, the value of the gross debt in the baseline scenario for 2023 was assumed as the actual one. This is why the blue bands on the *fan chart* only move away from the baseline scenario from 2024 onwards.

Compared to the RAF of May 2023, there has been a reduction in the probability mentioned above. In that report, the probability of the crossover occurring in some year between 2023 and 2027 was estimated at 43%, 4.3 p.p. higher than the current figure (38.7%). The probability estimated in this edition refers to the 2024-2028 interval, which is also five years.

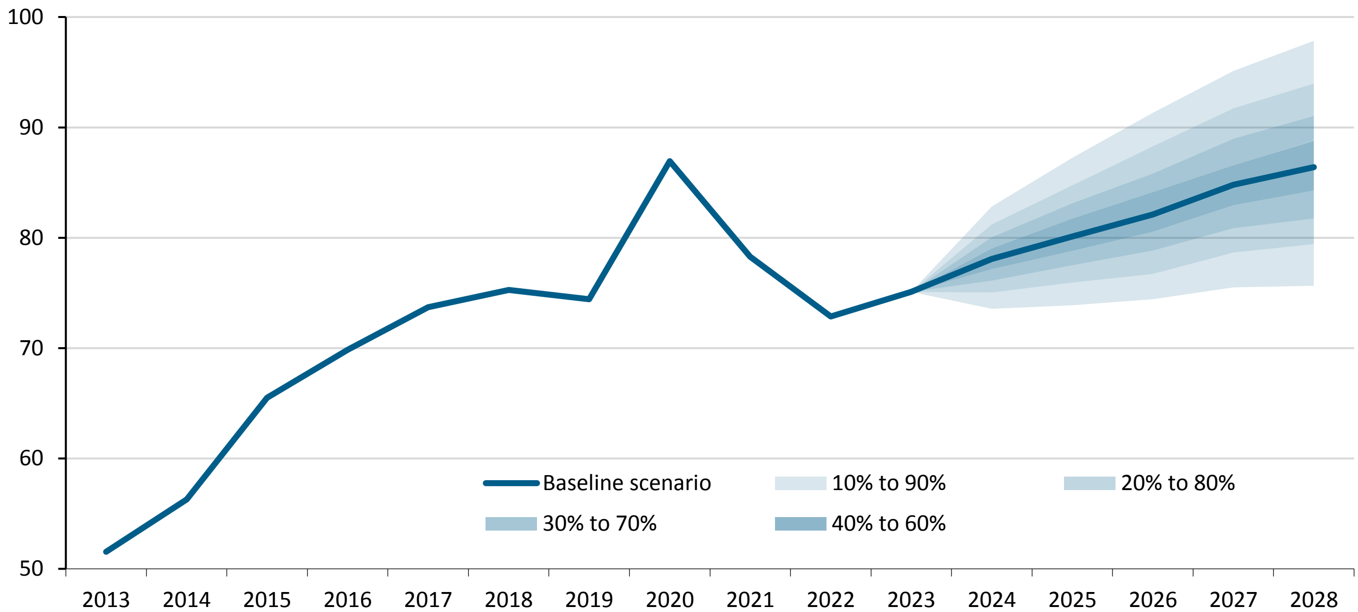
The main reason for the drop in probability was the downward shift of the baseline scenario. It's worth remembering that the fan chart takes the baseline scenario as data and is built symmetrically around that scenario. One of the reasons for the difference was the increase in the projection for nominal GDP growth in 2023, compared to the RAF in May. This increase reduced the projection for the debt in 2023 from 78.1% to 75.2%. This fact, combined with the adoption of this projected debt as the actual one - for the purposes of constructing the stochastic scenarios, as explained above - reduced the starting point of the *fan chart*.

Another way to see how the probabilities have changed between the RAFs is to bring the 2028 horizon (this RAF) back to 2027 (May's RAF). In this case, the *fan chart* in Graph 16 implies a crossover risk - at some point in the four-year window, rather than five, between 2024 and 2027 - of 28.6%. Again, this value is lower than the one found in the May RAF, by 14.4 p.p.

[39] For an explanation of the procedure, see subsection 3.3 of RAF No. 70 of November 2022, available at: https://tinyurl.com/vtftjp4s.

Graph 16 also reinforces the observation made in previous RAFs that the chance of the DBGG being below the current level (projected for Dec/2023) in five years' time is very low. In other words, the probability of the DBGG in 2028 being higher than in 2023 is 91.1%.

GRAPH 16. BASELINE SCENARIO AND STOCHASTIC SCENARIOS (FAN CHART) FOR DBGG (% GDP)



Source: IFI. Explanatory note: the values on the left axis indicate the percentage of GDP that the DBGG represents. The percentages in the legend at the bottom of the graph indicate probability ranges. For example, 20% of the simulated values are in the range labeled "40% to 60%". In other words, 80% of the values are in the range labeled "10% to 90%".

TABLE 14. IFI PROJECTIONS FOR THE CENTRAL GOVERNMENT'S PRIMARY BALANCE - BASELINE SCENARIO (% OF GDP)

Breakdown	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Gross Revenue	**23.3**	**22.0**	**21.9**	**21.9**	**21.9**	**21.9**	**22.0**	**22.1**	**22.0**	**21.9**	**21.8**	**21.7**
Revenue-sharing transfers to States & Municipalities	**4.6**	**4.4**	**4.4**	**4.5**	**4.4**	**4.5**	**4.5**	**4.5**	**4.5**	**4.5**	**4.5**	**4.5**
Net Revenue	**18.7**	**17.5**	**17.5**	**17.4**	**17.5**	**17.5**	**17.6**	**17.6**	**17.5**	**17.4**	**17.3**	**17.2**
Primary Expenditure	**18.2**	**18.5**	**18.6**	**18.5**	**18.3**	**19.2**	**18.1**	**17.9**	**17.7**	**17.5**	**17.3**	**17.0**
Mandatory	**16.6**	**17.1**	**17.2**	**17.2**	**17.1**	**18.0**	**16.9**	**16.8**	**16.6**	**16.4**	**16.2**	**16.0**
Social security benefits	8.0	8.2	8.3	8.4	8.4	8.8	8.4	8.3	8.3	8.3	8.2	8.2
Personnel expenses and social charges	3.4	3.3	3.2	3.2	3.1	3.2	3.0	2.9	2.9	2.8	2.8	2.7
BPC [Continuous Cash Benefits]	0.8	0.8	0.8	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Salary allowance and unemployment insurance	0.6	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Supplementation by the Federal Government to Fundeb	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
DF [Federal District] Constitutional Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Kandir Law [Legislation that regulated the application of ICMS]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial support for sub-national entities	0.1	0.1	0.0	0.1	0.1	0.2	0.2	0.3	0.3	0.2	0.2	0.2
Subsidies, grants and Proagro	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Court judgments and court-ordered debt payments (cost and capital)	0.2	0.2	0.2	0.2	0.2	0.5	0.2	0.2	0.2	0.2	0.1	0.1
Benefits for civil servants	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Health (mandatory)	1.1	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Education (mandatory)	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other Branches (cost and capital)	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Extraordinary credit, except PBF	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Bolsa Família [Family Allowance]	1.1	1.6	1.6	1.5	1.4	1.3	1.2	1.2	1.1	1.0	1.0	0.9
Ordinary benefits	*0.9*	*1.6*	*1.6*	*1.5*	*1.4*	*1.3*	*1.2*	*1.2*	*1.1*	*1.0*	*1.0*	*0.9*
Extraordinary benefits	*0.3*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Other mandatory expenses	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Discretionary expenditure	**1.5**	**1.4**	**1.4**	**1.3**	**1.3**	**1.2**	**1.2**	**1.2**	**1.1**	**1.1**	**1.1**	**1.0**
Primary balance	**0.5**	**-1.0**	**-1.1**	**-1.1**	**-0.9**	**-1.7**	**-0.5**	**-0.3**	**-0.2**	**-0.1**	**0.0**	**0.1**
Memo:												
Nominal GDP (R$ billion)	**9,915.3**	**10,687.6**	**11,337.5**	**12,065.8**	**12,777.9**	**13,507.3**	**14,275.4**	**15,086.6**	**15,944.2**	**16,844.7**	**17,792.3**	**18,807.1**

TABLE15. IFI PROJECTIONS FOR THE CENTRAL GOVERNMENT'S PRIMARY BALANCE - OPTIMISTIC SCENARIO (% OF GDP)

Breakdown	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Gross Revenue	**23.3**	**22.0**	**22.1**	**22.3**	**22.5**	**22.8**	**23.1**	**23.4**	**23.6**	**23.8**	**24.0**	**24.1**
Revenue-sharing transfers to States & Municipalities	**4.6**	**4.4**	**4.4**	**4.6**	**4.5**	**4.6**	**4.7**	**4.8**	**4.8**	**4.9**	**5.0**	**5.0**
Net Revenue	**18.7**	**17.6**	**17.7**	**17.7**	**18.0**	**18.2**	**18.5**	**18.7**	**18.8**	**18.9**	**19.0**	**19.1**
Primary Expenditure	**18.2**	**19.5**	**18.6**	**18.4**	**18.4**	**18.3**	**18.3**	**18.3**	**18.3**	**18.2**	**18.2**	**18.1**
Mandatory	**16.6**	**18.1**	**17.2**	**17.1**	**17.1**	**17.1**	**17.1**	**17.1**	**17.1**	**17.1**	**17.0**	**17.0**
Social security benefits	8.0	8.2	8.3	8.4	8.4	8.4	8.5	8.5	8.6	8.6	8.6	8.7
Personnel expenses and social charges	3.4	3.3	3.2	3.1	3.0	3.0	2.9	2.8	2.8	2.7	2.6	2.6
BPC [Continuous Cash Benefits]	0.8	0.8	0.9	0.9	0.9	0.9	0.9	0.9	1.0	1.0	1.0	1.0
Salary allowance and unemployment insurance	0.6	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Supplementation by the Federal Government to Fundeb	0.3	0.4	0.4	0.4	0.4	0.5	0.5	0.6	0.6	0.7	0.7	0.8
DF [Federal District] Constitutional Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Kandir Law [Legislation that regulated the application of ICMS]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial support for sub-national entities	0.1	0.1	0.0	0.1	0.1	0.2	0.2	0.3	0.3	0.2	0.2	0.2
Subsidies, grants and Proagro	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Court judgments and court-ordered debt payments (cost and capital)	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1
Benefits for civil servants	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Health (mandatory)	1.1	1.2	1.2	1.2	1.3	1.3	1.3	1.3	1.3	1.3	1.4	1.4
Education (mandatory)	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other Branches (cost and capital)	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Extraordinary credit, except PBF	0.2	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Bolsa Família [Family Allowance]	1.1	1.6	1.5	1.4	1.4	1.3	1.2	1.1	1.1	1.0	1.0	0.9
Ordinary benefits	*0.9*	*1.6*	*1.5*	*1.4*	*1.4*	*1.3*	*1.2*	*1.1*	*1.1*	*1.0*	*1.0*	*0.9*
Extraordinary benefits	*0.3*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Other mandatory expenses	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Discretionary expenditure	**1.5**	**1.4**	**1.4**	**1.3**	**1.3**	**1.3**	**1.2**	**1.2**	**1.2**	**1.2**	**1.1**	**1.1**
Primary balance	**0.5**	**-1.9**	**-0.9**	**-0.7**	**-0.4**	**-0.2**	**0.1**	**0.3**	**0.5**	**0.7**	**0.9**	**1.0**
Memo:												
Nominal GDP (R$ billion)	**9,915.3**	**10,693.1**	**11,409.7**	**12,224.7**	**13,088.0**	**13,992.8**	**14,964.3**	**16,006.3**	**17,126.1**	**18,330.8**	**19,613.5**	**20,981.5**

TABLE16. IFI PROJECTIONS FOR THE CENTRAL GOVERNMENT'S PRIMARY BALANCE - PESSIMISTIC SCENARIO (% OF GDP)

Breakdown	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Gross Revenue	**23.3**	**21.9**	**21.6**	**21.4**	**21.5**	**21.5**	**21.6**	**21.7**	**21.6**	**21.6**	**21.5**	**21.4**
Revenue-sharing transfers to States & Municipalities	**4.6**	**4.4**	**4.4**	**4.4**	**4.4**	**4.4**	**4.4**	**4.4**	**4.4**	**4.4**	**4.4**	**4.4**
Net Revenue	**18.7**	**17.5**	**17.2**	**17.0**	**17.1**	**17.1**	**17.2**	**17.2**	**17.2**	**17.1**	**17.0**	**16.9**
Primary Expenditure	**18.2**	**18.6**	**18.7**	**18.8**	**18.9**	**20.5**	**19.2**	**19.3**	**19.3**	**19.3**	**19.3**	**19.3**
Mandatory	**16.6**	**17.2**	**17.4**	**17.5**	**17.6**	**19.3**	**18.0**	**18.1**	**18.2**	**18.2**	**18.3**	**18.3**
Social security benefits	8.0	8.2	8.4	8.5	8.5	9.0	8.7	8.8	8.8	8.9	8.9	9.0
Personnel expenses and social charges	3.4	3.3	3.3	3.2	3.2	3.6	3.2	3.2	3.2	3.2	3.2	3.2
BPC [Continuous Cash Benefits]	0.8	0.8	0.9	0.9	0.9	1.3	0.9	1.0	1.0	1.0	1.0	1.0
Salary allowance and unemployment insurance	0.6	0.7	0.7	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Supplementation by the Federal Government to Fundeb	0.3	0.4	0.4	0.4	0.4	0.5	0.5	0.5	0.6	0.6	0.6	0.7
DF [Federal District] Constitutional Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Kandir Law [Legislation that regulated the application of ICMS]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial support for sub-national entities	0.1	0.1	0.0	0.1	0.1	0.2	0.2	0.3	0.3	0.2	0.2	0.2
Subsidies, grants and Proagro	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Court judgments and court-ordered debt payments (cost and capital)	0.2	0.2	0.2	0.2	0.2	0.6	0.2	0.2	0.2	0.2	0.2	0.2
Benefits for civil servants	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Health (mandatory)	1.1	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Education (mandatory)	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other Branches (cost and capital)	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Extraordinary credit, except PBF	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Bolsa Família [Family Allowance]	1.1	1.6	1.5	1.5	1.5	1.5	1.5	1.4	1.4	1.4	1.4	1.4
Ordinary benefits	*0.9*	*1.6*	*1.5*	*1.5*	*1.5*	*1.5*	*1.5*	*1.4*	*1.4*	*1.4*	*1.4*	*1.4*
Extraordinary benefits	*0.3*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Other mandatory expenses	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Discretionary expenditure	**1.5**	**1.4**	**1.4**	**1.3**	**1.3**	**1.2**	**1.2**	**1.2**	**1.1**	**1.1**	**1.1**	**1.0**
Primary balance	**0.5**	**-1.1**	**-1.5**	**-1.9**	**-1.8**	**-3.4**	**-1.9**	**-2.0**	**-2.1**	**-2.2**	**-2.3**	**-2.4**
Memo:												
Nominal GDP (R$ billion)	**9,915.3**	**10,680.1**	**11,282.4**	**12,022.3**	**12,785.0**	**13,567.3**	**14,391.5**	**15,261.3**	**16,179.9**	**17,147.8**	**18,169.6**	**19,281.7**

IFI projections

SHORT TERM

IFI projections	2023			2024		
	October	November	Comparison	October	November	Comparison
GDP - real growth (% p.a.)	2.97	2.97	=	1.22	1.19	▼
GDP - nominal (BRL billion)	10,699.91	10,687.57	▼	11,348.79	11,337.51	▼
IPCA - accumulated (% in the year)	5.11	4.64	▼	3.84	4.02	▲
Exchange rate - end of period (BRL/US$)	5.08	5.00	▼	5.15	5.08	▼
Employment - growth (%)	1.10	1.10	=	0.98	0.90	▼
Payroll - growth (%)	5.14	5.55	▲	1.28	1.40	▲
Selic - end of period (% p.a.)	11.75	11.75	=	9.50	9.50	=
Real interest *ex-ante* (% p.a.)	6.26	6.22	▼	5.33	5.33	=
Consolidated Public Sector Primary Balance (% of GDP)	-1.04	-1.20	▼	-0.97	-1.17	▼
of which Central Government	-0.94	-1.25	▼	-1.17	-1.07	▲
Net Nominal Interest (% of GDP)	6.72	6.90	▲	5.22	6.23	▲
Nominal Balance (% of GDP)	-7.76	-8.10	▼	-6.18	-7.40	▼
General Government Gross Debt (% of GDP)	75.82	75.16	▼	78.19	78.16	▼

MEDIUM TERM

		FORECASTS										
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
GDP - real growth (% p.a.)	**2.90**	2.97	1.19	2.06	2.05	2.03	2.01	2.01	2.01	1.98	1.95	2.03
GDP - nominal (BRL billion)	**9,915**	10,688	11,338	12,066	12,778	13,507	14,275	15,087	15,944	16,845	17,792	18,807
IPCA - accumulated (% in the year)	**5.78**	4.64	4.02	3.40	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Exchange rate - end of period (BRL/US$)	**5.22**	5.00	5.08	5.13	5.17	5.20	5.24	5.28	5.31	5.35	5.39	5.43
Employment - growth (%)	**7.39**	1.10	0.90	1.07	1.06	1.06	1.05	1.04	1.05	1.03	1.02	1.05
Payroll - growth (%)	**6.91**	5.55	1.40	2.06	2.05	2.03	2.01	2.01	2.01	1.98	1.95	2.01
Selic - end of period (% p.a.)	**13.75**	11.75	9.50	8.25	7.50	7.00	7.00	7.00	7.00	7.00	7.00	7.00
Real interest *ex-ante* (% p.a.)	**7.72**	6.22	5.33	4.29	4.13	4.03	3.97	3.93	3.91	3.90	3.89	3.89
Consolidated Public Sector Primary Balance (% of GDP)	**1.27**	-1.20	-1.17	-1.22	-0.95	-1.69	-0.53	-0.37	-0.23	-0.10	0.00	0.10
of which Central Government	**0.55**	-1.25	-1.07	-1.12	-0.85	-1.73	-0.51	-0.34	-0.20	-0.06	0.04	0.14
Net Nominal Interest (% of GDP)	**5.91**	6.90	6.23	5.73	5.40	5.13	5.05	4.95	4.89	4.91	4.87	4.90
Nominal Balance (% of GDP)	**-4.64**	-8.10	-7.40	-6.95	-6.35	-6.82	-5.58	-5.32	-5.12	-5.01	-4.87	-4.80
General Government Gross Debt (% of GDP)	**72.90**	75.20	78.20	80.20	82.20	84.90	86.50	87.90	89.30	90.50	91.70	92.70

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Independent Fiscal Institution

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